U.S. TRADE WITH SUB-SAHARAN AFRICA

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

AUGUST 1, 1996

Serial 104–90

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

43–830 CC WASHINGTON : 1998

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055980-4

COMMITTEE ON WAYS AND MEANS

BILL ARCHER, Texas, *Chairman*

PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, Jr., Florida
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
JIMMY HAYES, Louisiana
GREG LAUGHLIN, Texas
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska

SAM M. GIBBONS, Florida
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, Jr., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, New York

Phillip D. Moseley, *Chief of Staff*
Janice Mays, *Minority Chief Counsel*

Subcommittee on Trade

PHILIP M. CRANE, Illinois, *Chairman*

BILL THOMAS, California
E. CLAY SHAW, Jr., Florida
AMO HOUGHTON, New York
MEL HANCOCK, Missouri
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
DICK ZIMMER, New Jersey
JENNIFER DUNN, Washington

CHARLES B. RANGEL, New York
SAM M. GIBBONS, Florida
ROBERT T. MATSUI, California
WILLIAM J. COYNE, Pennsylvania
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts

CONTENTS

U.S. TRADE WITH SUB-SAHARAN AFRICA

THURSDAY, AUGUST 1, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:10 a.m., in room 1100, Longworth House Office Building, Hon. Phillip M. Crane (Chairman of the Subcommittee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY
FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
June 28, 1996
No. TR-26

CONTACT: (202) 225-1721

Crane Announces Hearing on U.S. Trade with Sub-Saharan Africa

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on U.S. trade with the countries of Sub-Saharan Africa. The hearing will be the fourth in a series that the Subcommittee is holding throughout 1996 on the status and future direction of U.S. trade policy. **The hearing will take place on Tuesday, July 16, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

BACKGROUND:

At present, 29 of the 48 countries in Sub-Saharan Africa are members of the World Trade Organization. Last year, overall U.S. exports to the region were valued at $5.4 billion, while U.S. imports totalled $12.7 billion. Prior to the expiration of the Generalized System of Preferences (GSP) on July 31, 1995, virtually all countries in Sub-Saharan Africa qualified for duty-free entry on a wide range of products. In 1994, however, the last calendar year in which the program was in effect, GSP imports from Sub-Saharan Africa totalled only $329 million, a figure representing less than 2 percent of all U.S. imports under the GSP program.

In 1994, Congress passed the Uruguay Round Agreements Implementing Act, which contained a provision requiring the President to produce a comprehensive trade and development policy for the countries of Africa. The first of the five reports called for in this legislation was submitted to Congress on February 5, 1996. Among other things, the President's report proposed the creation of the Africa Trade and Development Coordinating Group, an interagency group to be co-chaired by the National Security Council and the National Economic Council.

In announcing the hearing, Chairman Crane stated: "With a combined population of nearly 600 million people, Sub-Saharan Africa has the potential to become a major export market for U.S. goods and services. Current foreign aid programs, however, have failed to establish the private sector foundation that is necessary to serve as the catalyst for Africa's development. I look forward to this opportunity to hear testimony on how we can initiate and pursue a mutually beneficial trade relationship with the countries of Sub-Saharan Africa."

FOCUS OF THE HEARING:

The focus of the hearing will be to review the status of trade relations between the United States and the countries of Sub-Saharan Africa, including the opportunities and obstacles that currently exist. In addition, the hearing will explore possible ways for the United States to expand and facilitate our trade relations, as well as develop new trade opportunities, with Sub-Saharan Africa.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Monday, July 8, 1996. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

(MORE)

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. *The full written statement of each witness will be included in the printed record.***

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing. **Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than 10:00 a.m. on Friday, July 12, 1996.** Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Tuesday, July 30, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

*****

NOTICE -- HEARING POSTPONEMENT

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
July 15, 1996
No. TR-26-Revised

CONTACT: (202) 225-6649

Crane Announces Postponement for Hearing on U.S. Trade with Sub-Saharan Africa

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced a postponement of the hearing scheduled for Tuesday, July 16, 1996, on U.S. Trade with Sub-Saharan Africa. (See Subcommittee on Trade press release No. TR-26, dated June 28, 1996.)

A new date for the hearing will be announced in the near future.

*****

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
July 19, 1996
No. TR-29

CONTACT: (202) 225-6649

Crane Reschedules Hearing on U.S. Trade with Sub-Saharan Africa

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee has rescheduled the hearing on U.S. trade with the countries of Sub-Saharan Africa. The hearing will be the fourth in a series that the Subcommittee is holding throughout 1996 on the status and future direction of U.S. trade policy. **The hearing will take place on Thursday, August 1, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.** This hearing was previously annnounced in the Subcommittee on Trade press release No. TR-26, dated June 28, 1996.

<u>FOCUS OF THE HEARING</u>:

The focus of the hearing will be to review the status of trade relations between the United States and the countries of Sub-Saharan Africa, including the opportunities and obstacles that currently exist. In addition, the hearing will explore possible ways for the United States to expand and facilitate our trade relations, as well as develop new trade opportunities, with Sub-Saharan Africa.

<u>WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE</u>:

As indicated in press release No. TR-26, the final date for submitting requests to testify orally was Monday, July 8, 1996, and testimony will be received only from those public witnesses who have already requested to testify. Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Thursday, August 15, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, at least one hour before the hearing begins.

<u>FORMATTING REQUIREMENTS</u>:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

*****

Chairman CRANE. Good morning. I want to welcome our witnesses and guests to this hearing of the Trade Subcommittee on trade expansion between the United States and the countries of sub-Saharan Africa.

For many years the United States has supported a variety of foreign assistance programs that have sought to aid the countries of sub-Saharan Africa. Unfortunately, traditional foreign aid has not led to the level of economic development that we would all like to see today on the African continent. In the long run, private sector investment and development must serve as the catalyst for the countries of sub-Saharan Africa to compete in the global marketplace and to improve the standard of living for their citizens.

With a combined population of nearly 600 million people, sub-Saharan Africa can and should become a major export market for U.S. goods and services. However, the region's immediate potential does not seem to be reflected either in the investment decisions of individual businesses or in the U.S. Government's export development priorities, including high-profile trade missions.

In this context, I believe it is time for us to re-examine the nature of our relationship with sub-Saharan Africa and to focus our attention on ways to facilitate private sector trade and investment in the region.

In 1994, Congress took an initial step in this direction by asking the President to develop a comprehensive trade and development policy for the countries of sub-Saharan Africa as part of the Uruguay Round Agreements Act. The first of the five annual reports required under this provision were submitted by President Clinton earlier this year. The President's report, in turn, has generated a broader discussion among many of my colleagues, the business community and the public, on the future direction of U.S. economic relations with sub-Saharan Africa.

In this context, I have been pleased to work with my colleague on the Ways and Means Committee, Congressman Jim McDermott, toward developing a bipartisan proposal to facilitate the economic development of sub-Saharan Africa by expanding our trade relations with the region. We hope to introduce a bill on this subject in September.

I look forward to our witnesses' testimony today and hope that it will help us to identify ways that we might elevate the priorities of business and government toward sub-Saharan Africa and pursue mutually beneficial trade expansion efforts.

We do have a full schedule today, however, and I would like to remind our witnesses to try and contain their oral testimony—with one exception, if Mr. Jefferson will indulge Mr. McDermott—to try and summarize in 5 minutes and then submit your complete written statements for the record.

We will break for a short recess after our first panel of private sector witnesses testify and reconvene at 2 to receive testimony from Assistant Secretary of State George Moose and our second panel of witnesses.

[The opening statements follow:]

OPENING STATEMENT OF HON. PHILIP M. CRANE

Good afternoon. I want to welcome our witnesses and guests to this hearing of the Trade Subcommittee on trade expansion between the United States and the countries of Sub-Saharan Africa.

For many years, the United States has supported a variety of foreign assistance programs that have sought to aid the countries of sub-Saharan Africa. Unfortunately, traditional foreign aid has not led to the level of economic development that we would all like to see today on the African continent. In the long run, private sector investment and development must serve as the catalyst for the countries of sub-Saharan Africa to compete in the global marketplace and to improve the standard of living for their citizens.

With a combined population of nearly 600 million people, sub-Saharan Africa can and should become a major export market for U.S. goods and services. However, the region's immediate potential does not seem to be reflected either in the investment decisions of individual businesses or in the U.S. Government's export development priorities, including high-profile trade missions.

In this context, I believe it is time for us to reexamine the nature of our relationship with sub-Saharan Africa and to focus our attention on ways to facilitate private sector trade and investment in the region. In 1994, Congress took an initial step in this direction by asking the President to develop "a comprehensive trade and development policy for the countries of sub-Saharan Africa" as part of the Uruguay round Agreements Act. The first of the five annual reports required under this provision was submitted by President Clinton earlier this year. the President's report, in turn, has generated a broader discussion among many of my colleagues, the business community, and the public on the future direction of U.S. economic relations with sub-Saharan Africa.

In this context, I have been pleased to work with my colleague on the Ways and Means Committee, Congressman Jim McDermott, toward developing a bipartisan proposal to facilitate the economic development of sub-Saharan Africa by expanding our trade relations with the region. We hope to introduce a bill on this subject in September. I look forward to our witnesses' testimony today and hope that it will help us to identify ways that we might elevate the priorities of business and government toward sub-Saharan Africa and pursue mutually beneficial trade expansion efforts.

We do have a full schedule today, however, and I would like to remind our witnesses to contain their oral testimony to five minutes and ask them to submit their complete written statement for the record. We will break for a short recess after our first panel of private sector witnesses testify and reconvene at 1:30 p.m. to receive testimony from Assistant Secretary of State George Moose and our second panel of witnesses.

OPENING STATEMENT OF HON. JIM RAMSTAD

Mr. Chairman, thank you for calling today's hearing to discuss U.S. trade with the 48 countries of Sub-Saharan Africa.

Since the end of the Cold War, we have witnessed great political and economic liberalizations by many countries throughout Eastern Europe and the former Soviet Union.

While the efforts of many African nations have not commanded as much attention as the former Soviet-controlled countries, they too have taken steps to adopt democratic political principles and market-based economic reforms.

as these Sub-Saharan Africa nations implement important economic reforms to encourage investment and trade development, we must review our relationship with them and ensure that our policies support their pro-growth initiatives, as well as promote American economic and security interests in the region.

I look forward to hearing from today's witnesses about the future of U.S. trade with Sub-Saharan Africa and ways in which we can facilitate increased trade between our nations.

Thanks again for calling this hearing, Mr. Chairman.

Mr. CRANE. I would now like to recognize Mr. Rangel for an opening statement.

Mr. RANGEL. Thank you, Mr. Chairman. I want to thank my colleagues for their interest in this subject and in calling attention to the potential market that we have in Africa and in sub-Saharan Africa.

I look forward to listening to the ideas that you have, and recognize that for so long they have been ignored in the United States. We also cannot forget the major thrust that Ron Brown had in not only recognizing the potential of African markets but, more importantly, the need to remove the impediments that the private sector and others have in order to tap this emerging and dynamic African market.

Ron Brown has done a lot and there is no question that Mickey Kantor and the dedicated staff that we have in Commerce would want us to move forward. With your leadership, Mr. Chairman, and that of Members of Congress who have focused on this area, it can only mean a more prosperous and productive United States, and a more meaningful partnership with a continent, especially in South Africa, that can be an engine to improve our trade relationships and improve the quality of life of all of the people in that region. It is going to take this sound economic basis in order to make certain that we can have the relative tranquility politically that is so important for all nations if we are going to move forward.

Mr. McDermott and his staff have worked constantly in trying to bring some balance to this issue, and Congressman Jefferson, as well as Don Payne and so many others who have worked hard to get us to focus attention on this.

Mr. Chairman, as in so many other areas, your leadership will mean a lot, not only for our Subcommittee but, of course, for the Full Committee and, therefore, the Congress. So, I am very anxious to hear your testimony, and just as anxious to find out where you think we should move from where we are now.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Rangel.

I welcome our colleagues to testify this morning, Mr. McDermott and Mr. Jefferson, a former Member of this Subcommittee. It is nice to have you back today.

Mr. McDermott, as indicated by Mr. Rangel, has been spearheading this effort, and I welcome all of the bipartisan cooperation he has given and look forward to advancing this legislation.

I would now like to yield to Mr. McDermott.

Mr. RANGEL. Mr. Chairman, is it safe to say that the new ratios we expect next year would bring Mr. Jefferson back to the Subcommittee? [Laughter.]

Chairman CRANE. No, but we welcome you anyway.

STATEMENT OF HON. JIM MCDERMOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. MCDERMOTT. Thank you, Mr. Chairman, and Members of the Subcommittee.

I want to begin by saying, were it not for Mr. Crane, this would not be happening. This is a rare example in this Congress, perhaps, of a bipartisan, a truly bipartisan effort, and I want to publicly acknowledge the fact that you have been very important in this whole process.

I want to compliment you for putting this whole issue on your review of trade policy, and I look forward to working both with you and with Mr. Rangel, in whatever relationship the future may bring, because this issue will not go away, no matter where we are in the next Congress.

I think that my presentation today will focus on two issues: First, I want to give my view of the U.S. trade policy toward sub-Saharan Africa; and second, I would like to describe a new initiative to expand trade and investment between the United States and those economies in sub-Saharan Africa that are committed to economic reform and supporting private sector growth.

The first and most important thing that one must say about U.S. trade policy toward sub-Saharan Africa is that there is no U.S. trade policy toward sub-Saharan Africa.

I realized 2 years ago, during the process of adopting the Uruguay Round Agreements Act, that we had no policy and no real interest in expanding our trade with sub-Saharan Africa. It was very clear in 1994 that we did not have a comprehensive and focused approach, and I decided to offer an amendment that I hoped would begin a serious debate and reevaluation of our approach to sub-Saharan Africa.

The amendment that I offered in 1994 directed the President to develop a trade and development policy for the countries of sub-Saharan Africa. This amendment, section 134 of the Uruguay Round Agreements Act, was passed by a voice vote in the House and the Senate. Fourteen months later, on February 5, 1996, the President submitted his response. Unfortunately, the President's response fell short of our minimum expectations. There has been no debate or serious discussion within the administration, no reevaluation, no creative thinking about a new, more productive engagement as buyers and sellers as opposed to donor and recipient.

Unfortunately, masquerading as a trade and development policy are an assortment of programs and initiatives that do not work well together, have no central focus, policy or direction. It is a compilation of the programs and initiatives that are trapped in the cold war mentality and is almost a paternalistic approach to sub-Saharan Africa.

A very good example of this, in my opinion, is the disjointed approach of the Binational Commission with South Africa. While I support the intent and the goals of that commission, I cannot help but ask the question: Where is the policy that drives this commission and how does it relate to the other countries in sub-Saharan Africa who have struggled with structural adjustment programs and economic reforms without any substantive response from the Clinton administration? Does the Vice President's commission offer the same help to Ghana, Uganda, or Cote d'Ivoire, to just name a few, or is it simply an approach for South Africa?

I recommend to everybody on the Subcommittee that they read the President's trade development policy, which was submitted to the Congress last year, and the unbiased evaluation of that report by the Congressional Research Service.

Mr. Chairman, I believe that Africans are responsible for their future, but I think the United States, the world's largest market and most vibrant economy, lacks a creative and comprehensive trade policy toward sub-Saharan Africa. We have failed to provide the kind of constructive relationship that would make that future brighter.

In summary, I believe that the U.S. trade policy with sub-Saharan Africa must be based on building institutional ties with the economies and leaders who are committed to the necessary economic and political reforms that support private sector growth and vitality. I also believe that our trade policy must help to open U.S. markets, technology, management expertise, and capital to sub-Saharan Africa's vast potential.

We cannot simply rely on traditional development assistance. Traditional development assistance is only one part of what the United States needs to be doing in sub-Saharan Africa. Unfortunately, traditional development assistance has been our dominant response to Africa for over 30 years. I believe it is time for a major shift in attitude, policy and commitment.

The proposal which I will describe to you today is in response to the growing number of African governments and entrepreneurs who prefer to have America's trade and investment, not just our aid. Our proposal rejects the old donor/recipient model for every country in sub-Saharan Africa. Our proposal creates a transition path from development assistance to economic self-sufficiency for countries committed to political and economic reform and strong support for the private sector.

This proposal takes a very nontraditional approach to sub-Saharan Africa. Despite what you see in the papers about Liberia, Somalia, Rwanda or Burundi, I believe that a growing number of countries in sub-Saharan Africa are reasonably good investments. To use a Wall Street term on this, I would say I am "bullish" on Africa's potential.

Despite all the problems, expanded trade and investment with sub-Saharan Africa, if done right, can mean a reasonable return on investment, increased per capita incomes, and substantial job creation. It is time the United States changed its approach to sub-Saharan Africa. It is time the United States changed its attitude about doing business in sub-Saharan Africa. To do that, we must build institutionalized relationships and policies based on strong trade and investment ties with those countries that have taken on the difficult job of political and economic reform.

This is not to say that they have done everything right, that reforms have worked in every country, because in many cases they have not. But I am saying that if you are ready to make the necessary economic reforms, then the richest economy in the world should be willing to help the poorest economies make the transition from dependency to buyer/seller in the international marketplace.

Africa's efforts at self-sufficiency should not go unsupported. Now the question is, what is the best way to do this? Well, I believe that the United States can do more for those African economies committed to economic reform through our markets, our management expertise, our capital and our technology, than we can ever hope to do through our limited and shrinking aid programs.

In March of this year, we formed the bipartisan African Trade and Investment Caucus to develop a congressional policy on trade and investment with sub-Saharan Africa. As we all know, the Congress is not well suited for this kind of job. It has been difficult, and I do not profess to be putting forward all the answers.

But let me start by addressing the greatest misconception about this proposal. I do not—and I want to emphasize—I do not propose to cut health, education, population programs, democracy initiatives, conflict resolution support or child survival funding to fund this proposal. I believe there are a number of African countries who will continue to need traditional development assistance as they struggle to develop civil societies. Our aid dollars and programs are important to them, and I support funding for these efforts.

On the other hand, my proposal is designed to create a comprehensive trade and investment strategy for those economies in sub-Saharan Africa who have a record of commitment to market-based economics and to supporting their private sector. We want to tie those economies to the U.S. economy.

I have had discussions with African ambassadors in Washington, and they have communicated to their governments. But, this proposal lacks an important element, and that is substantive input from African business leaders and governments. I can only say that, in politics, one must take advantage of opportunities when they present themselves. It is rare to be able to do all that you should do. So, I view our effort as a good beginning, and I welcome the constructive input from all interested parties. I invite your input as we go through the legislative process, and I want to tell you that Africa has a new set of friends in Congress. There are many, both Republicans and Democrats, who want to see a different, more productive, and mutually beneficial relationship.

Now let me describe the proposal. It is composed of three primary cornerstones and several key initiatives.

The first cornerstone is the negotiation of a U.S.-Africa free trade area by 2020. A few African countries have begun the difficult job of integrating into the global economy. Many African countries have become signatories to the Uruguay round.

Now the difficult work begins of removing tariff and nontariff barriers to trade. The free trade area gives us the opportunity to begin the process of bilateral and multilateral discussion that, over a number of years, will lead to the type of economic and trade relations that are mutually beneficial to Africa and the United States.

Obviously, this will take some real creativity and commitment, but we think that a U.S.-Africa free trade area is fundamental to our overall trade and investment strategy. We expect these negotiations will begin with very small steps in the direction of a free trade area, and that the negotiations will explicitly recognize the huge differences in the various economies. But, it is our hope that we can jointly craft an institutional framework that is satisfactory to Africa and to the United States.

We are outcome oriented. We want to support the kinds of policies that expand trade and investment, that generate jobs in Africa and the United States, and that strengthen economic ties between the United States and Africa. By making a commitment to reach a free trade area in 25 years, we think that we have a chance to be successful.

This idea I credit to Mr. Crane, because it was his idea and it got incorporated because of his involvement in this initiative.

The second cornerstone is the creation of a U.S.-Africa economic cooperation forum. This idea is loosely modeled on APEC. Until

Secretary Brown visited Africa earlier this year, as mentioned by Mr. Rangel, no Secretary of Commerce had been there since 1982. Can anybody on this Subcommittee think of any Secretary of State or Treasury who has paid an official visit to Africa? It has been a long time since any cabinet member has thought of Africa other than as a recipient of donor aid, or as a humanitarian basket case.

This forum will begin to change that way of thinking about Africa. The forum will meet annually to lay out an agenda that will allow for bilateral and multilateral initiatives.

There will be opportunities for the private sector and NGO, non-governmental organizations, participation. The forum will be a place where issues and concerns can be discussed at the highest levels. The forum will demonstrate to the international community that the United States takes Africa seriously, that we want to expand and enrich our economic ties with Africa, that we are in for the long haul and will compete with the Europeans and the Asians.

It is my hope that the forum will also send a signal to our business community that the U.S. Government is committed to making it easier to do business in Africa.

The third cornerstone is the U.S.-Africa Trade and Investment Partnership. We propose a $100 million partnership program to support privately—and I underline—privately managed equity and infrastructure funds that will leverage private financing for small and moderate sized African businesses. A growing number of equity and portfolio funds have been created for Africa over the last 3 years. We believe that Africa's needs require more sophisticated financial instruments and approaches.

Our funds will do three things. First, they will help mobilize private savings from developed economies for equity investment in Africa; second, they will stimulate the growth of securities markets in Africa; and third, they will improve access to third party equity and management advice for Africa's small and medium sized firms.

We want to attract American technical and managerial expertise to financially feasible projects in Africa. Doing business in Africa is difficult and expensive. We have to find ways of making it attractive and efficient to look at not only the great business deal, but also the financially feasible deal.

The demand for infrastructure in Africa is enormous, but the response from the international finance community has not been promising. Our infrastructure fund will be the first created for Africa. We are beginning to see a number of African governments increasingly opt for construction and management of infrastructure projects throughout the private sector. The size, complexity, and uncertain profitability of such projects have, in the past, discouraged many U.S. investors from participating. But, it is clear that Africa's future competitiveness depends on reliable telecommunications, roads, railways, and power plants.

By creating an infrastructure fund, we hope to be able to attract U.S. investors to potentially profitable projects. The Asian infrastructure fund is one example of the kind of impact we think this fund could have in Africa.

The principal goal of these three cornerstones—the free trade area, the forum, and the partnership program—is to attract the international project finance market to Africa and to make it financially feasible for U.S. investors to participate in profitable business opportunities in Africa. If we can do that, we will see substantial job growth, increases in per capita incomes, and expanded trade between the United States and Africa.

Now, some may think this is naive, overly optimistic, or just completely unrealistic. Well, it is time that someone was optimistic about Africa, that someone was willing to challenge the status quo. That is what we intend to do here.

Now, the three cornerstone programs will take time to implement, but there is one initiative that could have an immediate impact in at least three or four African countries.

African textile and apparel exports to the United States represent less than 1 percent, $350 million, of the total export market of $43 billion of exports into this country. We have drafted a policy that could immediately be implemented and would not threaten U.S. jobs or disrupt our domestic economy. Specifically, we are proposing that there be no adverse actions taken by the U.S. Government to restrict any textile or apparel from sub-Saharan Africa from entering the United States prior to the aggregate of such trade exceeding $3.5 billion annually.

This policy should be applicable to sub-Saharan Africa until the multifiber agreement expires in 2005. Over the life of the multifiber agreement, this represents about $32 billion in potential exports to the United States and generates jobs and tax revenue for Africa. To put this initiative in perspective, the United States has given $25 billion in foreign aid to Africa over the last 34 years. Of course, we support the application of international labor and human rights standards as this proposal is implemented.

Just about all emerging economies have historically used the textile and apparel sector as an entry point to manufacturing. Once workers buildup skill and dexterity in garment production, they are generally ready for the introduction of new manufacturing industries.

In addition to the equity and infrastructure funds, and the textile and apparel initiative, I am proposing two changes in how the board of directors of the Export-Import Bank operates. First, the composition of the board of directors will have to include one person who has extensive private sector experience in sub-Saharan Africa.

Second, the board of directors are required to establish a private sector advisory Committee to assist in developing and implementing policies, programs, and financial instruments designed to support the expansion of, and increase in the provision of loans, guarantees and insurance with respect to sub-Saharan Africa.

I believe that these two initiatives will help the Export-Import Bank to expand coverage beyond the nine countries currently eligible for financing without violating generally accepted credit standards. I want to emphasize that I am committed to coming up with financially responsible procedures that will allow the Export-Import Bank to do its job in sub-Saharan Africa.

In 1994, the cumulative value of export financing guarantees, insurance and loans for sub-Saharan Africa was $25.8 million. That represents 0.2 percent of total Export-Import Bank financing. I think there are ways to turn this around without ignoring our fiduciary responsibility. This is an important priority and we hope to have some positive initiatives coming out of the Export-Import Bank in the next 12 months.

I have tried to lay out rather quickly for you—and it has taken a little longer than 5 minutes, Mr. Chairman—our proposal, and to give you an idea of the commitment that many of us have to a radical shift in emphasis toward a private sector and market incentives approach to stimulating economic growth and reducing poverty in Africa.

This trade and investment proposal is not for all of sub-Saharan Africa. To participate, a country will have to meet eligibility requirements based on a strong commitment to economic and trade liberalization. We are proposing to move away from "if you reform your economy, we will give you development assistance," to a more dynamic response that says, "if you liberalize your trade, political and economic policies, we will expand our trade and investment relation with you."

We want to create a transition path from development assistance to self-sufficiency for those economies committed to economic reform. At the end of a 5- or 10-year period, the countries participating in this initiative will be receiving substantially less development assistance because of their expanded trade and investment ties with the United States.

This will mean that, even with our domestic budget squeeze, we would be able to continue to help those sub-Saharan African countries that require traditional development assistance. In fact, there may be more money available, since the countries that we will focus on tend to be USAID's priority countries, the ones that tend to get the most money from the United States

I thank you for your extending my time, and I welcome the questions of the Subcommittee.

[The prepared statement follows:]

Statement by Representative Jim McDermott
before the Subcommittee on Trade
Committee on Ways and Means
U.S. Trade Policy with Africa
August 1, 1996

Thank you for allowing me to testify on a subject that has received far too little attention. I want to compliment Chairman Crane for including sub-Saharan Africa in his review of U.S. trade policy and for his strong and determined leadership as the Chairman of the Subcommittee on Trade. I look forward to working with you and Congressman Rangel to build a vibrant and economically rewarding relationship with sub-Saharan Africa.

My presentation today will focus on two issues; first, I will give you my view of U.S. trade policy toward sub-Saharan Africa; and second, I will describe a new initiative to expand trade and investment between the U.S. and those economies in sub-Saharan Africa that are committed to economic reform and supporting private sector growth.

The first and most important thing that one must say about U.S. trade policy towards sub-Saharan Africa is that there is no U.S. trade policy towards sub-Saharan Africa.

I realized two years ago, during the process of adopting the Uruguay Round Agreements Act, that we had no policy and no real interest in expanding our trade with sub-Saharan Africa. It was very clear in 1994, that we did not have a comprehensive and focussed approach there. I decided to offer an amendment that I hoped would begin a serious debate and reevaluation of our approach to sub-Saharan Africa. The amendment that I offered in 1994 directed the President to develop a trade and development policy for the countries of sub-Saharan Africa. That amendment -- section 134 of the Uruguay Round Agreements Act --- was passed by voice vote in the House and the Senate. Fourteen months later, on February 5th, 1996, President Clinton submitted his response. Unfortunately, the President's response fell short of our minimum expectations. There has been no debate or serious discussion with the administration, no reevaluation, no creative thinking about a new more productive engagement as buyers and sellers as opposed to donor and recipient.

Unfortunately, masquerading as a trade and development policy are an assortment of programs and initiatives that don't work well together, have no central focus, policy or direction. A compilation of programs and initiatives that are trapped in a cold war and almost paternalistic approach to sub-Saharan Africa. A very good example of this disjointed approach is the Vice President Gore's Bi-National Commission with South Africa. This commission is a prime example of the administration's disjointed approach to sub-Saharan Africa. While I support the intent and the goals of the commission, I can't help but ask the question: Where is the policy that drives this commission and how does it relate to the other countries in sub-Saharan Africa who have struggled with structural adjustment programs and economic reform programs without any substantive response from the Clinton administration? Does the Vice President's plan offer the same help to Ghana, Uganda, and Cote d'Ivoire, to name a few, or is this approach just for south Africa?

I recommend that you read the President's trade and development policy for the countries of sub-Saharan Africa, submitted to Congress earlier this year, and the unbiased evaluation of that report by the Congressional Research Service.

Mr. Chairman, I believe that Africans are responsible for their future, but I think because the U.S.-- the world's largest market and most vibrant economy -- lacks a creative and comprehensive trade policy towards sub-Saharan Africa, we have failed to provide the kind of constructive relationship that would make that future brighter.

In summary, I believe that U.S. trade policy with sub-Saharan Africa must be based on building institutional ties with the economies and leaders who are committed to the necessary economic and political reforms that support private sector growth and vitality. I also believe that our trade policy must help to open U.S. markets, technology, management expertise, and capital to sub-Saharan Africa's vast potential. We cannot simply rely on traditional development assistance. Traditional development assistance is only one part of what the U.S. needs to be doing in sub-Saharan Africa. Unfortunately, traditional development assistance has been our dominant response to Africa for over thirty years. I believe that it is time for a major shift in attitude, policy and commitment.

The proposal that I will describe to you today is in response to the growing number of African governments and entrepreneurs who prefer to have America's trade and investment, not just our aid. Our proposal rejects the old donor/recipient model for every country in sub-Saharan Africa. Our proposal creates a transition path from development assistance to economic self-sufficiency for countries committed to political and economic reform and strong support for the private sector.

This proposal takes a very non traditional approach to sub-Saharan Africa; despite Liberia, Somalia, Rwanda, and Burundi, I believe that a growing number of countries in sub-Saharan Africa are reasonably good investments. To use a Wall Street term -- I am bullish on Africa's potential.

Despite all the problems, expanded trade and investment with sub-Saharan Africa, -- if done right, -- can mean a reasonable return on investment, increased per capita incomes, and substantial job creation. I think that it is time the U.S. changed its approach to sub-Saharan Africa; it is time the U.S. changed its attitude about doing business in sub-Saharan Africa.

To do that, we must build an institutionalized relationship and policy based on strong trade and investment ties with those sub-Saharan African countries that have taken on the difficult job of political and economic reform.

This is not to say that they have gotten everything right, that reforms have worked in every country, because in many cases they have not, but I am saying that if you're ready to make the necessary economic reforms, then the richest economy in the world should be willing to help the poorest economies make the transition from aid dependency to buyer and seller in the international marketplace.

Africa's efforts at self-sufficiency should not go unsupported. Now, the question is, what is the best way to do this?

Well, I believe that the U.S. can do more for those African economies committed to economic reform through our markets, our management expertise, our capital, and our technology, than we could ever do through our limited and shrinking aid programs.

In March of this year, we formed the bipartisan African Trade and Investment Caucus to develop a Congressional policy on trade and investment with sub-Saharan Africa. As you may know, Congress is not well suited for this type of job. It has been difficult, and I don't profess to have all the answers.

Let me start out by addressing the greatest misconception about this proposal.

I do not propose to cut health, education, population programs, democracy initiatives, conflict resolution support or child survival funding to fund this proposal.

I believe that there are a number of African countries who will continue to need traditional development assistance as they struggle to develop civil societies. Our aid dollars and programs are important to them and I support funding for these efforts.

On the other hand, my proposal is designed to create a comprehensive trade and investment strategy for those economies in sub-Saharan Africa who have a record of commitment to market based economics and to supporting their private sector -- we want to tie those economies to the U.S. economy.

While I have had discussions with African Ambassadors in Washington and they have communicated to their governments, this proposal lacks a very important element, and that is substantive input from African business leaders and governments. I can only say that in politics, one must take advantage of opportunities when they present themselves. It is rare to be able to do all that you should do. So I view our effort as a good beginning. I welcome the constructive input from all interested parties.

I invite your input as we go through the legislative process and I want to tell you that Africa has a new set of friends in the U.S. Congress. There are many, both Republican and Democrat, who want to see a different, more productive, and mutually beneficial relationship.

Now let me describe our proposal. It is composed of three primary cornerstones and several key initiatives.

The first cornerstone is the negotiation of a U.S.- Africa free trade area by 2020. A few African countries have begun the difficult job of integrating into the global economy. Many African countries have become signatories to the Uruguay Round Agreements Act.

Now the difficult work begins of removing tariff and non-tariff barriers to trade. The free trade area gives us the opportunity to begin the process of bilateral and multilateral discussion that, over a number of years, will lead to the type of economic and trade relations that are mutually beneficial to Africa and the U.S.

Obviously, this will take some real creativity and commitment, but we think a U.S. - Africa free trade area is fundamental to our overall trade and investment strategy. We expect that these negotiations will begin with very small steps in the direction of a free trade area and that the negotiations will explicitly recognize the huge differences in the various economies. But, it is our hope that we can jointly craft an institutional framework that is satisfactory to Africans and to the U.S.

We are outcome oriented, we want to support the kinds of policies that expand trade and investment, that generate jobs in Africa and the U.S., and that strengthen economic ties between the U.S. and Africa. By making a commitment to reach a free trade area in 25 years, we think that we have a chance to be successful.

The second cornerstone is the creation of a U.S. - Africa economic cooperation forum. This idea is loosely modeled on APEC. Until Secretary Brown visited Africa earlier this year no Secretary of Commerce had been there since 1982. Can any of you think of the last time a Secretary of State or Treasury paid an official visit to any country in Africa? It has been a long time since any cabinet member has had to think of Africa other than as a recipient of donor aid, or as a humanitarian basket case.

The Forum will begin to change that way of thinking about Africa. The Forum will meet annually to layout an agenda that will allow for bilateral and multilateral initiatives.

There will be opportunities for private sector and NGO participation. The Forum will be the place where issues and concerns can be discussed at the highest levels. The Forum will demonstrate to the international community that the United States takes

Africa seriously. That we want to expand and enrich our economic ties with Africa. That we are in for the long haul and will compete with the Europeans and the Asians.

It is my hope that the Forum will also send a signal to our business community that the U.S. government is committed to making it easier to do business in Africa.

The third cornerstone is the U.S.- Africa trade and investment partnership. We propose a $100 million partnership program to support privately managed equity, and infrastructure funds that will leverage private financing for small and moderate sized African businesses. A growing number of equity and portfolio funds have been created for Africa over the last three years. We believe that Africa's needs require more sophisticated financial instruments and approaches.

Our funds will do three things: first they will help mobilize private savings from developed economies for equity investment in Africa; second, they will stimulate the growth of securities markets in Africa; and third, they will improve access to third party equity and management advice for Africa's small and medium sized firms.

We want to attract American technical and managerial expertise to financially feasible projects in Africa. Doing business in Africa is difficult and expensive, we have to find ways of making it attractive and efficient to look at not only the great business deal, but the financially feasible deal.

The demand for infrastructure in Africa is enormous, but the response from the international finance community has not been promising. Our infrastructure fund will be the first created for Africa. We are beginning to see a number of African governments increasingly opt for construction and management of infrastructure projects through the private sector. The size, complexity, and uncertain profitability of such projects have, in the past, discouraged many U.S. investors from participating. But it is clear that Africa's future competitiveness depends on reliable telecommunications, roads, railways, and power plants.

By creating an infrastructure fund we hope to be able to attract U.S. investors to potentially profitable projects. The Asian infrastructure fund is one example of the kind of impact that we think this fund could have in Africa.

The principal goal of our three cornerstones -- the free trade area, the forum, and the partnership program -- is to attract the international project finance market to Africa, and to make it financially feasible for U.S. investors to participate in profitable business opportunities in Africa. If we can do that, we will see substantial job growth, increases in per capita incomes, and expanded trade between the U.S. and Africa.

Some may think that this is naive, overly optimistic, or just completely unrealistic. Well, I think that it is time that someone was optimistic about Africa; that someone was willing to challenge the status quo. That's what we intend to do.

While the three cornerstone programs will take time to implement, there is one initiative that could have an immediate impact in at least three or four African countries.

African textile and apparel exports to the U.S. represent less than 1% (about $350 million) of the total import market of $43 billion. We have drafted a policy that could be implemented immediately and would not threaten U.S. jobs or disrupt our domestic industry.

Specifically, we are proposing that there be no adverse actions taken by the U.S. government to restrict any textile or apparel from sub-Saharan Africa from entering the U.S. prior to the aggregate of such trade exceeding $3.5 billion annually.

This policy shall be applicable to sub-Saharan Africa until the multi fiber agreement expires in 2005. Over the life of the multi fiber agreement, this represents about $32 billion in potential exports to the U.S. and generates jobs and tax revenue for Africa. To put this initiative in perspective, the U.S. has given $25 billion in foreign aid to Africa over the last 34 years. Of course we support the application of international labor and human rights standards as this proposal is implemented.

Just about all emerging economies have historically used the textile and apparel sector as an entry point to manufacturing. Once workers build up skill and dexterity in garment production, they are generally ready for the introduction of new manufacturing industries.

In addition to the equity and infrastructure funds and the textile and apparel initiative, I am proposing two changes in how the board of directors of the export-import bank operates. First, the composition of the board of directors will have to include one person who has extensive private sector experience in sub-Saharan Africa. Second, the board of directors are required to establish a private sector advisory committee to assist in developing and implementing policies, programs, and financial instruments designed to support the expansion of, and increase in, the provision of loans, guarantees, and insurance with respect to sub-Saharan Africa. I believe that these two initiatives will help the Export-Import Bank to expand coverage beyond the 9 countries currently eligible for financing without violating generally accepted credit standards. I want to emphasize that I am committed to coming up with financially responsible procedures that will allow the Export-Import Bank to do its job in sub-Saharan Africa. In 1994, the cumulative value of export financing guarantees, insurance, and loans for sub-Saharan Africa was $25.8 million, or 0.2 percent of total Export-Import Bank financing. I think there are ways to turn this around without ignoring our fiduciary responsibility.

This is an important priority and we hope to have some positive initiatives coming out of the Export-Import Bank in the next 12 months.

I've tried to lay out our proposal, and to give you an idea of the commitment that many of us have to a radical shift in emphasis towards a private sector and market incentives approach to stimulating economic growth and reducing poverty in Africa.

This trade and investment proposal is not for all of sub-Saharan Africa. To participate, a country will have to meet eligibility requirements based on a strong commitment to economic and trade liberalization. We propose to move away from " if you reform your economy we will give you development assistance" to a more dynamic response that says "if you liberalize your trade, political, and economic policies we will expand our trade and investment relation with you. We want to create a transition path from development assistance to self-sufficiency for those economies committed to economic reform. At the end of a five or ten year period the countries participating in this initiative will be receiving substantially less development assistance because of their expanded trade and investment ties with the United States.

This will mean that even with our domestic budget squeeze, we would be able to continue to help those sub-Saharan African countries that require traditional development assistance. In fact, there may be more money available since the countries that we will focus on tend to be USAID's priority countries, the ones that tend to get the most money from the U.S.

I look forward to working with the committee. Thank you.

Chairman CRANE. Thank you, Mr. McDermott.
Mr. Jefferson.

STATEMENT OF HON. WILLIAM J. JEFFERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. JEFFERSON. Thank you, Mr. Chairman.

I appreciate the opportunity to be before this Subcommittee and to be back in this Committee room. I want to thank my friend and my leader, Mr. Rangel of New York, for his valiant effort to again have me seated on the Subcommittee this morning. I am sorry that it fell short, sir, but I do appreciate your continued interest in my return to the Subcommittee. [Laughter.]

Chairman CRANE. Mr. Jefferson, I did not mean to be insulting with my response to Mr. Rangel's question, but I do not know of any of our colleagues on your side that are scheduled to lose their seats. [Laughter.]

Mr. JEFFERSON. Mr. Chairman, of course, I am at a disadvantage in debating you on this issue. I do not think the question, however, revolves around whether any Member on my side would lose his seat or not. I think it deals more with the will of the majority, as Mr. Rangel suggests, to revisit the reality of the ratio apportioning. But we will not discuss that this morning, inasmuch as that is not before this Subcommittee at this time.

I do thank Mr. Rangel and I thank you, Mr. Chairman, for thinking about the request.

This is an important discussion, and I appreciate the chance to appear here today. My comments will not be nearly as detailed as Mr. McDermott's, but they are meant to be general and to try and underscore what I think are the important issues involved with his proposal.

It is important for this Subcommittee and for the Congress to find ways to foster greater U.S. trade opportunities and to foster direct investment in sub-Saharan Africa. That this Subcommittee has agreed to hold hearings on these issues brings great credit upon you, Mr. Chairman, as Mr. McDermott has said, and upon every Member of this Subcommittee, for these issues long neglected by the Congress.

Many of us who are interested in Africa feel that greater economic development will occur in Africa and at a faster pace only when the United States government and the U.S. private sector pay more attention to increasing direct investment and trading opportunities with sub-Saharan Africa.

We watch, as Mr. McDermott has said, in dismay at the reluctance of U.S. business, and the U.S. Government in certain instances, from investing and encouraging investment in Africa, at the same time that other nations, in competition with us for global markets, have been more than eager to enter and to expand their presence in lucrative African markets and to invest and sell their goods and services there.

I am concerned, Mr. Chairman, about what we do about this problem and how we approach it. To talk about it in stark terms of a shift in direction, from developmental aid in Africa, or as Mr. McDermott talks about it, a paternalistic handout approach or a donor/donee approach, to an approach that deals with trade and investment, I think contains within it some seeds of concern for me.

The point of developmental aid, which heretofore has not been adequate in and of itself, is to break down some of the illegal, regulatory and other constraints that do not permit an atmosphere for sustained private investment and for increased trade that will work well for both sides.

For instance, there are regulatory and legal problems, price controls, restrictive labor codes, slow and uneven investment licensing, problems with the financial systems, including crowding out of private investment. There are structural problems, such as the administration of tax issues. There are public enterprise sector dominance issues in sub-Saharan Africa, and there are restrictions on foreign investment. There are issues that relate to the national debt of so many of these countries.

These are things that have to be broken down and dealt with before one can expect a shift away from developmental aid to strictly support for private, direct investment and to support these countries through trading policy.

Now, I want to commend Mr. McDermott for the thoughtfulness that he has brought to this issue, and to say to him that I appreciate the amendment that he placed in the GATT bill last year. Without it, we would not be having, I do not believe, this discussion today and the discussion we have had around this issue. We would not have a trade caucus and investment caucus in this Congress dealing with Africa. So, his work is to be commended.

But, I should say to you that the idea of developmental assistance and of direct investment and trade policy go hand in hand. One supports the other. They must be supplementary to each other. They are not separate issues, particularly as they apply to sub-Saharan Africa, and we cannot accept the idea at this point that we can shift from one to the other as a matter of improving the outcome in Africa.

I hope that this Subcommittee, while it does not have the issue of foreign aid to Africa as its major province, will understand the connection between foreign aid or developmental assistance and a policy of direct investment and of greater trade liberalization in Africa. There is a connection that is definite and that is sure, and we ought not miss that as we discuss these issues.

I do believe, as Mr. McDermott has said, that there is a need to look at how we break down barriers to direct investment. The greatest reason why there has been an expansion of economic growth in Asia, particularly in China, has been the willingness of U.S. firms to directly invest in those countries. It is the fastest way to secure economic growth. It is the fastest way to improve the culture of work in the country. It is the fastest way to improve the quality of jobs in the country, the fastest way to increase per capita income, and the fastest way to change the whole business culture in the country—through direct investment by our country and other industrialized interests.

The issue of trade and direct investment are separate issues in one sense. Of course, with respect to trade, we are talking about how goods come from Africa to us, and how we send our goods to Africa. With respect to direct investment, we are talking about something quite different— how we have our major capital interest and move capital from our country to Africa, to support the establishment of businesses there.

Both of these issues are very important issues. I believe this Subcommittee, as it deals with the issue of trade—except for the instance that Mr. McDermott has cited—gets to be a long-term set of issues, that the issue of direct investment and how this Subcommittee provides incentives and how it provides direct and support and influence to have U.S. businesses get involved in directly investing in Africa, is as important as anything we can do on the trade question. In fact, it may be a more rapid way that we can see increased economic prosperity in Africa.

In this regard, I believe the funds that Jim McDermott talked about this morning are very important. One of the major issues about U.S. investment has been the matter of putting capital at risk in Africa, so it has therefore been difficult to form capital pools for investment.

The imprimatur of the U.S. Government behind these funds encouraging investment at a starting point is going to be important, but I think what is most important is that they provide a way to leverage private sector funds, to put less at risk private sector dollars from this country and to therefore create an incentive for private sector development there. I believe, in that sense, there's a genius behind the proposals that Mr. McDermott talks about with respect to the equity investment fund, the private investment fund.

I also think the same holds for the infrastructure fund that he has talked about, because without the infrastructure fund providing the basis for the direct investment, it is going to be very difficult for direct investment to work just with the direct private capital formation fund. So both of these funds are important.

However, Mr. Chairman, I believe there is a great deal of interest growing in private funds that are being created almost every day—or being talked about anyway—by people in the private sector and private capital formation markets. This Subcommittee can do a great deal to encourage this by how it handles issues that are before it in the trading area, but more importantly, issues that are before it in the tax area. And, in the end we are going to have to talk about some proposals to spur direct investment that may be influenced by how we approach our Tax Code.

Also, Mr. Chairman, I believe the issue of moving this matter to a point of discussion through forums is important and is helpful, but what I want to have us do here are three things. I'll just say these three and let that be the issue.

I am concerned about a matter of shifting from developmental aid to a policy of greater trade and direct investment because the two go hand in hand and one supports the other. Without developmental assistance, there can be no realistic trade and direct investment policy in sub-Saharan Africa because of the issues I have already discussed, about the peculiar legal regimes that have to be changed, about the culture of public ownership that has to be broken down, about the issues of consumer rights and worker safety, labor codes that are restrictive. All those things are things which developmental aid programs are working to break down, and they therefore must continue to work as we make a new approach.

We have never done enough on the developmental assistance side, and we cannot accept the idea that there is a declining level of assistance there, and that down the road this is going to continue as a matter of direction for our country. If we are really going to make this program work, it cannot be a matter of using rhetorical phrases like moving from dependency to independence, because that is not the point of developmental assistance. It is not to make the countries dependent; it is to help to develop the internal structures that permit private investment and that permit greater trade liberalization. So these issues ought to be tied in.

I am glad to see Mr. Johnson here this morning, because I think the work that his Subcommittee does and the work that we end up doing on trade expansion is going to be very important and closely coordinated, and I think his presence underscores that.

The issue that Mr. McDermott talks about with respect to sub-Saharan Africa and some countries which are ready for this kind of support and some which are not, this is an important question. Just as you cannot view all the countries in Asia as the same, you cannot view all the countries in sub-Saharan Africa as the same. They are all very different and each has a set of very different needs, and we have a starting off point with each which is very different. It means that our approach must be calibrated to meet the needs of each of these countries. It does not mean that some ought to be eligible for the trade and direct investment liberalization policies and others ought not be eligible based on certain thresholds that we are talking about.

If direct investment and if liberalization of trade are important as a way for our country to start doing new things in Africa, we have got to find a way, and properly linked with our developmental policy, to make sure we are working to bring along all those countries that have an interest in these expansions and in these investments. I believe in so many of these areas there are so many important resources in these countries that are underdeveloped, that there is so much potential for, if our country turns its attention to how it might support in each particular instance, perhaps with a different calibration, how each country moves toward developing its resources until it is an enormous opportunity in almost every place that we are talking about in sub-Saharan Africa.

I want to applaud Mr. McDermott for what he is starting to do here. I want to bring a warning, a word of caution, that we ought not, at the expense of developmental assistance, go into the trade and direct investment area. I do say, however, that the direct investment path is a very rapid path to development which we ought to support very strongly, and that the trade issues are going to be long-term issues that we have to work on, but there are some starting points, as you suggested, which I think this Subcommittee ought to get after as soon as it can.

I look forward next year, Mr. Chairman, to working with you on that side of your desk on these issues, and with Mr. Rangel and other Members of this Subcommittee. I have missed the opportunity to work with you and I look forward to it the next time.

Thank you very much.

Chairman CRANE. Thank you, Mr. Jefferson, and Mr. McDermott, for your testimony.

We have only about 6 minutes, gentlemen, left to go on the clock, and there are going to be two votes back to back, so the Subcommittee will stand in recess and ask Ambassador Lang to——

Mr. RANGEL. Mr. Chairman, because there is a vote, I would suggest that these witnesses put together a bipartisan task force that we could meet with, to see where we go from here. I think there are two votes on the floor and we may be moving on to the next panel.

Mr. PAYNE OF VIRGINIA. Mr. Chairman, I know these witnesses may not return after this, but I would like to make a comment about this proposal after we return, if I might, if that is in order.

Chairman CRANE. Sure thing. Absolutely.

Mr. PAYNE OF VIRGINIA. Thank you.

Chairman CRANE. Again, thank you both.

[Recess.]

Chairman CRANE. Before we invite Ambassador Lang up, I want to yield to our colleague on the Subcommittee for a statement.

Mr. PAYNE OF VIRGINIA. Thank you very much, Mr. Chairman. I appreciate it.

I would like to ask unanimous consent to enter into the record a letter from Mr. Spratt to you concerning this proposal.

Chairman CRANE. Without objection, so ordered.

[The information follows:]

JOHN M. SPRATT, JR.
5th DISTRICT, SOUTH CAROLINA

1536 LONGWORTH BUILDING
WASHINGTON, D.C. 20515
(202) 225-5501

COMMITTEES:
NATIONAL SECURITY
GOVERNMENT REFORM
AND OVERSIGHT

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES:

FEDERAL BUILDING
BOX 350
ROCK HILL, SOUTH CAROLINA 29731
(803) 327-1114

39 E. CALHOUN STREET
SUMTER, SOUTH CAROLINA 29150
(803) 773-3362

88 PUBLIC SQUARE
BOX 25
DARLINGTON, SOUTH CAROLINA 29532
(803) 393-3998

July 31, 1996

The Honorable Phillip Crane
Chairman
Subcommittee on Trade
House Ways and Means Committee
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to express my concerns about a hearing your subcommittee will be holding on August 1, 1996, to examine the Clinton Administration's African trade policy report. I understand that your subcommittee may also discuss a proposal that you and Congressman McDermott are preparing on African development.

I share your support for policies that encourage stability, self-sufficiency, and democracy in Africa. Stronger economic development in Africa can help not only African countries but also the United States. I agree with a number of your proposals to create a trade and investment strategy for countries in sub-Saharan Africa. But I am strongly opposed to those portions of your proposal that would do serious harm to the U.S. textile and apparel industry and its 1.8 million workers. A draft summary of your proposal states:

> We are proposing that there be no adverse actions taken by the U.S. government to restrict any textile or apparel from sub-Saharan Africa from entering the U.S. prior to the aggregate of such trade exceeding $3.5 billion annually. This agreement shall be applicable to sub-Saharan Africa until the Multi Fiber Agreement expires in 2005. <u>Over the life of the Multi Fiber Agreement, this represents about $32 billion in potential African exports to the U.S.</u> (Emphasis added.)

By permitting an additional $32 billion in textile/apparel imports, this proposal will permit thousands of textile and apparel jobs to be lost. Approximately one third of the textile and apparel workers in the United States are African-Americans or Hispanics and 65% are women. It makes no moral or economic sense to create new jobs in Africa by taking jobs away from America's most vulnerable workers.

Since 1970, America has lost 400,000 jobs to textile/apparel imports. In 1995 alone, 78,000 apparel workers lost their jobs. Last year, the United States incurred the second largest trade deficit in our history and a record deficit in textiles and apparel. In 1995, the United States imported $43.9 billion in textile and apparel goods. Our textile trade deficit was $34 billion. Enacting this proposal can only make the trade deficit worse and the job loss greater.

Too often when the United States wishes to favor foreign countries, we increase their quotas for textile exports. For example, we increased Turkey's quotas to reward Turkey for participating in Desert Storm. We raised Egypt's quotas because Egypt supported the Middle East peace process. And we agreed to phase-out textile/apparel quotas altogether so that we could close the Uruguay Round. It is not fair to place so much of the burden of assisting foreign countries on the back of U.S. textile and apparel workers.

I understand that you are exploring ways to give African nations with new quota growth now assigned to Asian countries. Before the Multi-Fibre Arrangement was abandoned for the Agreement on Textiles and Clothing, we urged U.S.T.R. to recognize this advantage to the quota system; it allowed such allocations for the benefit of our friends and countries we wanted to help. Without the Multi-Fibre Arrangement, I doubt that you can find a way to work out such an allocation between Africa and Asia. If you can find a legal way to shift actual textile imports from Asia to Africa, I would be pleased to consider it. But I question whether it can be done without breaching the Agreement on Textiles and Clothing (ATC) and international law.

The 1.8 million men and women who work in the textile and apparel industries today face diminishing prospects for employment because of the phase-out of quotas and the Agreement on Textiles and Clothing. We should be looking for ways to protect their jobs, not undermine them, and I urge you not to make this proposal part of your bill.

Respectfully,

John M. Spratt, Jr.

JMSj:

cc: Congressman Jim McDermott

Mr. PAYNE OF VIRGINIA. Mr. Chairman, I want to commend Mr. McDermott and Mr. Jefferson for what they are proposing. In my own State of Virginia, our former Governor, Doug Wilder, had initiated trade relationships between our State and some of the sub-Saharan Africa nations on the basis that there were some mutually advantageous relationships that might be developed. I think that is certainly the case and I certainly applaud what Mr. McDermott is doing.

I must say, however, there is one provision that I would hope would receive some further consideration, and that is the provision that looks at the textile quotas and the fact that there would be an additional $3.5 million per year that might be added to the quota of these nations.

What that potentially does is to allow textile and apparel goods to be made in a country other than ours, and it then affects the jobs in districts like mine and other rural and, to some extent, distressed districts, where we are finding we are having a very difficult time maintaining these kinds of jobs with the quota system that we currently have.

We know that the multifiber agreement has been eliminated, and we understand that it is going to be totally eliminated over the next 9 years, and we are trying to make adjustments as we go forward under the existing rules of the WTO.

So, I would simply say that, as we think about ways that we can better establish our relations and better ways that we can work with sub-Saharan African nations, that we should be very circumspect about how we handle textile quotas because of the impact this likely will have on jobs that are very important, particularly in rural and inner-city areas.

I thank you for that and——

Mr. MCDERMOTT. If the gentleman will yield, may I respond just a little bit to that so that you understand what was implied. I did not get into all the details.

Let me say about the multifiber agreement, it expands every year somewhere around $3 billion or so, and it is the expansion that is anticipated in each year that we would not allocate in Asia but would simply be allocated to Africa.

It is not an expansion of the multifiber agreement on top of what is already agreed upon. It is simply a reallocation of that portion which would today go to the Asian holders of quotas. We would take that and move it to Africa. we are trying to be cognizant of the issue that you raise, but you are absolutely correct, that it is an issue that needs to be discussed.

I would like to submit, Mr. Chairman, with unanimous consent, a document produced by the World Bank about what happened in Kenya when they tried to develop their own textile industry and how our government responded to it.

I think Africans have had the experience, so far, of us being very anti the development of the textile trade there, so we wanted to give this a little bit of help so that there could be some initial development, not to expand the overall imports that come to the United States, but within the present agreement.

[The World Bank document was not available at the time of printing:]

Mr. PAYNE OF VIRGINIA. I thank you very much for that response. I think those are the kinds of things that we need to look at.

I would, however, urge some caution, because the expansion of these quotas generally are parts of the WTO Agreement among the ASEAN nations, which means that in Asia the only nation we could really go to and reduce the quota would be China—$3.5 billion is largely all, or 80 percent, of the legitimate business that China is now doing, so that would have a pretty substantial impact on our relationship, I think, with China and our bilateral agreements. So, I think that concept may be a good one, but I think a lot of work would need to be done in terms of its implementation.

Thank you very much.

Mr. MCDERMOTT. I would be glad to work with you.

Mr. RANGEL. I have a question.

There seems to be a great deal of disappointment that the momentum of the Ron Brown initiatives no longer are there. Your having done this work in a bipartisan way, and having the Chairman very interested in moving this forward, have you suggested—or did I miss it—where do we go from here? Are you working with someone on this in the administration?

Mr. MCDERMOTT. Yesterday I met with people from the Treasury Department. I have talked with people in State, I have talked with people in Commerce. So, we have been making contacts continually with them, and you will begin to hear proposals today from Mr. Lang and others, and I think the doors are open.

The reason we wanted to have this hearing—and I am grateful to Mr. Crane for having the hearing—is that it gets this issue on the agenda and begins to get people to believe it is real and that something is actually going to happen. If we do not have a hearing and the Chairman does not raise the issue, people began thinking, well, it is election year and it will go away. This is not going to go away and I think Mr. Crane's hearing is really setting that stage.

Mr. RANGEL. With all due respect to Chairman Crane, this is about the end of this legislative year. What I would hope is that you might bring some Members together, with members of the administration, to make certain that we are moving this forward. And then who knows who will be calling the next hearing around here.

Mr. MCDERMOTT. Good idea.

Chairman CRANE. Thank you very much, Mr. McDermott.

I would now like to invite Ambassador Jeff Lang, Deputy U.S. Trade Representative, at the Office of the U.S. Trade Representative, to come forward for his testimony.

Let me remind you, and other witnesses, to try and summarize in 5 minutes or thereabouts. All of your written testimonies, though, will be made a part of the permanent record.

STATEMENT OF JEFFREY M. LANG, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. LANG. I appreciate that, Mr. Chairman, and I will try to be as brief as possible.

It is a big subject, and we appreciate very much the chance to work on this with you, Mr. McDermott, and the other Members of the Subcommittee. We submitted the section 134 report earlier this year and we are working on implementing those recommendations.

I would also like to thank you in this context, and others, including Chairman Archer, for the legislation that moved forward GSP last night. That is very relevant I think to what we are talking about today.

Sub-Saharan Africa is 48 countries, and 32 of them have populations of less than 10 million. The total gross domestic product for sub-Saharan Africa is about $400 billion. That is less than $700 per person.

A recent study by Jeff Sachs, who is here this morning, and his colleagues at the Harvard Institute for International Development, suggests that about 40 percent of Africa's slow growth in the 1970–89 period was due to the fact that African markets are closed to trade. During this period the member states of the European Union supposedly opened their markets to these countries under special trade programs for their former colonies. This supposed openness by the European Union—and they do absorb about one-third of the region's exports—was obviously not enough to produce acceptable rates of growth in the region.

We believe that, ultimately, exchanges of market-opening concessions on a multilateral basis is the best way for developing countries to grow, because it gives the participants a legal right to foreign market access and it also compels them to open their markets for the capital goods they need to grow.

Now, just for the sake of efficiency, let me summarize some practical steps that I think we can take to address this situation.

First, we need to encourage more active participation in the WTO by sub-Saharan African countries, both individually and as a byproduct of efforts at regional trade liberalization. Just as an example, from my recent experience in negotiating on telecommunications services, I had one sub-Saharan African country to talk to—South Africa. We need more of them involved in that kind of program. This is a world in which 50 percent of the people have never made a telephone call. So there is a lot of participation in the WTO we need.

With the notable exception of the extensive tariff bindings established by South Africa and other members of the South African Customs Union, the rest of the region has undertaken only minimal and, in most cases, no commitments in the WTO to open markets for goods and services. Implementation of WTO obligations they do have, which apply to all members, regardless of the level of development, should be expanded in order to support economic reform, encourage trade, and create stable commercial conditions, all the things that I know you're looking for.

Second, we need to encourage freer trade within the region, or parts of it. Africa has a long history of attempts at integration, and the Southern African Development Community is actively considering complete liberalization of trade among its 12 members in the southern cone.

That is the reason the Vice President signed an MOU, memorandum of understanding, with the SADC, Southern African Development Community. It will assist their members in their integration efforts by providing technical assistance, advisory services, and research support. As part of that agreement, we were pleased at USTR to work with SADC officials when they asked us to provide technical reviews of their trade protocol designed to forge their members into a single trading area. When this and other regional trade arrangements from sub-Saharan Africa are submitted to the WTO for review and approval, it will provide opportunities to ensure that these arrangements promote an increase in trade, not trade distortion.

Third, it is time to encourage greater communications between officials at all levels. We have a formally structured consultation with South Africa in the Binational Commission and occasional conferences with individual countries or regional groups, like our consultations with SADC on its trade protocol. We should be building a network of effective working relationships whereby it might be feasible to hold a U.S.-Africa trade and economic forum, along the lines suggested by Congressman McDermott and you.

Fourth, I agree that we need to look at the industrial country side of the equation. I must say that whatever barriers the United States has in the form of tariffs or other obstacles, are not major obstacles to increase trade between Africa and the United States. Moreover, no African country has asked that we negotiate a free trade agreement, although many are seeking greater access to our market for goods.

It is a hopeful sign of change in Africa that Africans themselves no longer regard the region as a European trading reserve. While Africans are obviously not prepared to endanger the trade they have with Europe, EU trade policies are not sufficient to provide acceptable rates of growth in Africa. Given the openness of the U.S. market generally, and assuming enactment of GSP extension, not just now but on a more permanent basis, marginal increases in U.S. opening are probably not the critical element in getting this development cycle going. Rather, the real question is how African states can best take advantage of their access to foreign markets under existing programs.

Take the GSP. Utilization of GSP by African countries has been increasing. It has risen from $332 million of exports in 1994 to $489 million in 1995. South Africa got about three-fourths of African GSP benefits, and five African countries capture 92 percent of all the sub-Saharan GSP benefits. With 48 countries in the region, that means a lot of them are not using the benefit effectively. The major products were jewelry and commodities like ferrochrome.

Almost all sub-Saharan countries—five countries are excluded—but all the rest qualify as beneficiaries under the program and, therefore, are eligible to export duty free in 4,600 of the 9,600 HTS categories. In addition, most of the African countries—this region has the greatest concentration of least developed beneficiary countries—are not subject to the competitive need limits in GSP, which takes that cap off of their GSP exports.

Despite these incentives, only 0.3 percent of total GSP benefits go the least developed countries. Sixty-one percent of GSP benefits go to Asia. The fact that total sub-Saharan GSP imports in 1995 were valued at only $489 million out of $18 billion of GSP imports from all countries clearly argues that there should be more done to increase Africa's participation in the GSP Program.

We have proposed that GSP eligibility be expanded to cover additional products—and this enactment done last night will do that—provided they are imported from least developed countries, which are countries in this region.

There are only two caveats on that. The excluded products, which are the standard GSP exclusions, textiles, apparel, shoes, handbags and a few others; and second, the extension to other products has to be reviewed to determine those that are import sensitive. But, I think that will open up something like 1,500 to 2,000 new product categories in addition to the 4,600 that are already in the program for consideration of inclusion in this expanded program.

We are also considering two new initiatives to apply to African countries eligible for GSP. First, to raise the utilization rates. I emphasize, that is a very important aspect of solving this problem. We intend to launch a public information effort to tell governments and private firms how the GSP program works and how to take advantage of its benefits.

Second, we would grant the benefit of cumulation to those groups of African countries that are determined to be making substantive and significant efforts to integrate. This right to cumulate their cumulative value of production under the program's rules of origin would allow the value of a product partially produced in several African countries to be added together in order to qualify for the 35 percent value added criteria that is part of the eligibility criteria under GSP. This would expand the region's export potential and also at the same time encourage the regional trade liberalization.

Let me just make a special comment about the textiles and apparel. There is currently one quota on one category in one country in continental sub-Saharan Africa, and that quota is at 75 percent above the call level for that product. Since 1971, sub-Saharan African textiles imports have grown at more than twice the rate of imports for the rest of the world in volume terms, and about three times the rate in value terms. Imports of apparel, which is where most of these countries want to concentrate, because that is the labor-intensive part of the production process, are growing even faster, 27 percent in value terms.

Now, admittedly, this is off a low base. But, I do not think that at this time textile and apparel policy is a significant barrier because the countries are not subject to the quotas—except for one country and one product.

Now, no amount of easing entry into the U.S. market can succeed unless the African countries develop a relatively competitive proficiency in producing goods, and that requires a substantial flow of investment, as Mr. McDermott has said. The World Bank has calculated that a country has to achieve an investment level equal to 25 percent of the country's GDP in order to achieve a GDP growth rate of 6 percent. Assuming that criterion, sub-Saharan Africa would need investment levels of about $100 billion annually. African countries' annual savings rates might generate about $40 billion. Foreign aid and multilateral bank funding just cannot bridge the remaining $60 billion gap in any given year, let alone every year.

So, the only potential funding source is private investment. That is the reason we are pursuing bilateral investment treaties in the region. These negotiations are currently linked to intellectual property discipline, and if you get intellectual property discipline, you encourage investment because you're creating a level of security that countries find friendly to investment.

I am not in a position from USTR to talk about development projects. I understand one of my colleagues will be here this afternoon with the Subcommittee. But I would say that other agencies of the government are trying to help firms identify potential projects. Several initiatives are underway. I understand the aim is to evaluate the potential projects that are worthy of U.S. business interest and work for the development of Africa. These agencies are the Trade and Development Agency, the Department of Energy, the U.S. Export-Import Bank, and the Overseas Private Investment Corp. These studies and sponsorships of conferences and financing efforts will all help in the investment process, which will in turn feed favorably into the trade process.

So, that is a summary of the statement I have prepared for the record. I am open to your questions. I appreciate the opportunity, Mr. Chairman.

[The prepared statement follows:]

Testimony of Ambassador Jeffrey M. Lang

Deputy U.S. Trade Representative

House Ways and Means Committee
Trade Subcommittee

August 1, 1996

Good afternoon, Mr. Chairman. I am Ambassador Jeffrey Lang, Deputy U.S. Trade Representative. I am pleased to be here today to talk to you about the status of trade relations between the United States and the countries of Sub-Saharan Africa, particularly the obstacles and opportunities for trade and investment, which we seek to expand for their benefit and ours. For Africa, the past is not necessarily prologue. The changes that are under way in that vast continent point to a potential growth in the coming decades that is often underestimated, if not written off by many. Your efforts to spur action on African trade and development policies in the form of legislative initiatives as well as this hearing itself are like the sounds of a sentinel alerting us to the need for action on our part and on those of our African trading partners. What may seem to be minor obstacles to trade can obstruct major opportunities that could benefit both the United States and Africa. The Administration, therefore is seeking to expand U.S. exports to, and investment in, Africa primarily because they create U.S. business opportunities and simultaneously stimulate growth and increase the productivity of Sub-Saharan economies.

Admittedly, Sub-Saharan Africa, with the exception of South Africa, offers less evident market opportunities at this time, but the medium and long term horizon appears more promising. Sub-Saharan Africa comprises 48 countries, 32 of which have populations of less than 10 million. Although the region has a population and a land mass that is roughly three times the size of the United States, it is perceived as a collection of small, fragmented, low-income, relatively closed markets. Sub-Sahara's total gross domestic product of $400 billion amounts to about one-twentieth of ours, and its per capita income averages less than $700 per person.

Thirty years ago the "Asian tigers" were no better off than the African countries. Today, the disparity in Asian and African income levels compels us to ask, "Why?" Of course, disease, drought, and civil strife have had a disastrous impact on individual countries at certain periods during the past decades, but why has this lack of growth been so widespread, so systemic? A recent study by Jeff Sachs and his colleagues at the Harvard Institute for International Development suggests that about 40 percent of Africa's slow growth in the 1970 - 1989 period was due to the fact that African markets are closed to trade. During this period of time, the Member States of the European Union opened their markets to these countries under their special trade program for their former colonies. This openness by the European Union -- and they do absorb about one-third of the region's exports -- was obviously not enough to produce acceptable rates of growth in the region. We believe an important reason is that multilateral exchanges of market-opening concessions are the best way for developing countries to grow, because this system gives them a legal right to foreign market access, but it also compels them to open their markets for the capital goods they need. The mutual exchange of benefits is good politics and good economics.

To date, Sub-Saharan Africa simply has not been heavily involved in trade, neither intra-regional nor international. Most of the 48 Sub-Saharan countries were members of the GATT 1947 and participants, at least nominally, in the Uruguay Round. Two thirds of those have become members of its successor institution, the World Trade Organization (WTO) as indicated in the attached table. Nevertheless, national trade barriers remain high, restraining international trade and keeping intra-regional trade between Sub-Sahara's fragmented markets at levels on average less than seven percent of their combined GDP. Sub-Saharan Africa, with 10 percent of the world's population, generated only 1.3 percent of the world's $4.2 trillion exports, or $56.3 billion in 1994, mainly commodities--gold, diamonds, oil, and agricultural products such as cocoa and coffee.

One way of addressing this situation, is to encourage more active participation in the WTO by Sub-Saharan African countries, both individually, and as a byproduct of efforts at regional trade liberalization. With the notable exception of the extensive tariff bindings established by South Africa and the other members of the South African Customs Union (SACU) in the Uruguay

Round, the rest of the region has undertaken only minimalist commitments in the WTO to open markets for goods and services. Implementation of WTO obligations, which apply to all Members regardless of level of development, should be expanded, in order to support economic reform, encourage trade, and create the stable commercial conditions favored by foreign investors. In the ongoing process of reviewing the implementation of WTO obligations in the Committees that administer WTO Agreements, and in the course of periodic reviews of Member's trade regimes required by the WTO, we will press for greater use of WTO provisions in operating their trade regimes, to further the objectives of reform and liberalization in Sub-Saharan trade.

At the same time, the WTO Agreements have provided for transitional periods to full implementation for the poorest countries, many of which are in this region. For a specified period of time, these countries enjoy the benefits of WTO membership, but have somewhat limited obligations. The WTO also provides additional assistance to the poorest countries to put the provisions of the WTO Agreements into action. The principal areas of focus have been technical assistance in the development of WTO-compatible practices affecting areas such as customs procedures, intellectual property protection, agriculture and the implications of the Uruguay Round Agreements for these countries' economies. The WTO Secretariat is also working with Members to review technical assistance requirements and to provide educational materials to help countries comply with WTO requirements

Another practical step to broad trade liberalization by countries of the region is to encourage freer trade within the region or parts of it. Africa has a long history of attempts at integration and liberalization, but their success has been limited. The Southern African Customs Union (SACU) was established in 1910. Consisting of South Africa, Botswana, Lesotho, Swaziland, and Namibia, it has been the most durable of these efforts, and is still operative, providing for essentially free trade behind a common tariff. The Southern African Development Community (SADC) began as an effort to counterbalance the effects of South Africa's apartheid policies in 1979. It has a broader membership than SACU, and is actively considering complete liberalization of trade among its twelve members in the southern cone of Africa. We encourage this trend to regional trade liberalization in Sub-Saharan Africa, and welcome the expanded dialogue it is generating with individual countries as well as with groups that are engaged in regional integration efforts.

For that reason, the Vice President signed an MOU with SADC to assist them in their integration efforts by providing technical assistance in the form of advisory services and research support. As part of that agreement, we were pleased to work with SADC officials when they asked us to provide technical reviews of their trade protocol designed to forge their members into a single trading area. When this and other regional trade arrangements from Sub-Saharan Africa are submitted to the WTO Membership for review and approval under WTO provisions, it will provide opportunities to ensure that these arrangements promote an increase in trade, not trade distortion.

In other regions of Africa, integration agreements had been signed, canceled and reconfigured for the past three decades. The efforts at integration continue. Currently, the Western African Economic and Monetary Union or (WAEMU) was established to liberalize and integrate the western francophone region. In the eastern region, the Preferential Trading Area (PTA) seeks to revive and expand in its successor, the Community of East and Southern Africa (COMESA). Kenya, Uganda and Tanzania, as a subset within the PTA, once had a very closely integrated union that separated and now, once again, is tentatively moving closer together.

These continued efforts at liberalization and integration reflect a hopeful change in Sub-Saharan Africa. That promise is confirmed by the free elections held in more than twenty Sub-Saharan countries in this decade.

In an effort to encourage closer U.S./African trade relations and to foster this trend to greater political and economic liberalization beyond national and regional boundaries, we look for opportunities to expand the two-way flow of ideas with the individual countries of Africa or with groups of them, particularly where regional trade liberalization is progressing. We have a formally structured consultation with South Africa in the Bi-National Commission and occasional conferences with individual countries or regional groups, like our consultations with SADC on its trade protocol. It is time to encourage greater communications between officials at all levels to identify problems and opportunities and to work out ways to resolve the former and to capitalize on the latter. These meetings would allow us to address issues of mutual concern such as increasing utilization of GSP; expanding access to markets for textile and apparel within the framework of international agreements; increasing trade in certain commodities; and improving customs administration to free up trade flows, reduce border delays, and deter illegal transhipments. The more systematically we address these working level problems, the better we will be prepared to address the more complex trade policy issues that require resolution at increasingly more senior levels. In short, we should be building a network of effective working relationships whereby a meeting might be feasible somewhat along the lines of the U.S.-Africa Trade and Economic Forum that has been proposed by Congressman McDermott.

This is a new Africa emerging and the United States should develop a comprehensive trade and development policy for Africa. We have begun this effort in accordance with a timely directive contained in Section 134 of the Uruguay Round implementing legislation. That section calls for a report each year on U.S. trade policy toward Africa, the first of which the President submitted to Congress in February. We are in the process of implementing the numerous initiatives contained in the report and examining new opportunities for increasing trade and investment with Africa. We hope, thereby, to turn obstacles into opportunities for the countries of Africa so that they can become more active participants in the world trade arena, and more active trading partners of the United States.

In my view, this objective of expanding our trading relationship with Africa will take on greater meaningfulness over time. Today our trade flows are small and undeveloped for many reasons. We hope that we can increase the trade flows by working to diminish those practices on both sides of the ocean that may inhibit trade. We must lay a firmer foundation in trade before we can pursue free trade negotiations. Whatever barriers we have in the forms of tariffs, etc, are clearly not the major obstacle to increased trade between Africa and the United States. I think that we can make more progress by working on the pressing barriers that hinder trade between our countries. Our goal now is to seek freer trade on a larger scale. We think that the African countries share that goal. No African country has requested that we negotiate a free trade agreement, but many are seeking greater access for their goods. While we are considering ways to enhance their trade flows to our markets, we want to convince them that it is in their interest to liberalize their trade practices regionally and internationally.

The Trade Barriers Report that we prepare each year is a kind of radar scope of trade practices. It picks up changes in U.S. business attitudes toward trade obstacles. Increasingly, we find African trade practices coming across its screen reinforcing the idea that we need a new comprehensive trade and development policy for Africa. A cursory reading of the President's Trade Barriers report to Congress indicates there are a growing number and variety of unfair trade practices in Africa that U.S. firms have identified and which we are seeking to redress on their behalf.

A hopeful sign of change in Africa is that Africans no longer are willing to regard themselves as a European trading reserve. Nor are American businesspeople prepared to concede Africa to Europeans. While the Africans are obviously not prepared to endanger the trade they have with Europe, EU trade policies are not sufficient to provide for acceptable rates of growth in Africa. Given the openness of the U.S. market generally, and, assuming enactment of GSP extension, marginal increases in U.S. openness are not the critical elements.

Rather, the real question is how the African states can best take advantage of their access to foreign markets. This involves these countries opening their own markets to investment and trade in strategic ways.

Generalized System of Preferences

One approach to expanding trade with Africa is to prime the pump by facilitating the development of African countries as trading partners. Utilization of the Generalized System of Preferences (GSP) by African countries had been increasing, rising from $332 million in 1994 to $489 million in 1995. South Africa captured nearly three-fourths of the Sub-Saharan African GSP benefits, followed by Zimbabwe, Mozambique, Swaziland and Mauritius. Together, these five countries captured 92 percent of all Sub-Saharan GSP benefits. The major GSP products included jewelry and a number of commodities such as ferrochromium, ferrosilicon, manganese, cane sugar, parts for ore processing machinery, and animal skins.

Since the legislative authority for GSP expired in July 1995, the Administration has urged Congress to pass legislation renewing the GSP as a way of facilitating U.S./African trade flows. Almost all Sub-Saharan countries (five countries are excluded) qualify as beneficiaries of the GSP program and therefore are eligible to export duty-free 4600 of the 9600 product categories in the Harmonized Tariff Schedule of the United States. In addition, most of the African countries, which are the Least Developed Beneficiary Countries (LDBC's), are not subject to "competitive need limits," and thus are not cut off from duty-free eligibility for products when exports from a GSP-eligible country exceed specified thresholds.

Despite these incentives, only 0.3% of total GSP benefits go to the least developed countries while 61% goes to Asia. The fact that total Sub-Saharan GSP imports in 1995 were valued at only $489 million out of $18 billion GSP imports from all countries clearly argues that more should be done to increase Africa's participation in the GSP program.

Therefore, the Administration proposed that GSP eligibility be expanded to cover additional products provided they are imported from LDBC's which would include most Sub-Saharan African countries. Two caveats should be noted. First, statutorily excluded products such as most textiles and apparel, shoes, handbags and a few others would not be included. Second, any extension of GSP eligibility to any other products would be reviewed to exclude those determined to be import sensitive even if imported only from LDBC's on a duty-free basis.

We are considering two new initiatives that would apply to African countries eligible for GSP. First, to raise Sub-Saharan GSP utilization rates, the Administration intends to launch a public information effort to tell governments and private firms how the GSP program works and how to take advantage of its benefits.

Second, the Administration would grant the benefit of cumulation to those groups of African countries that are determined to be making substantive and significant efforts to integrate. This right to cumulate their collective value of production under the program's rules of origin would allow the value of a product partially produced in several African countries to be added together to qualify for the 35 percent value added criteria for eligible products. This would expand Africa's export potential and encourage regional trade liberalization.

Of course, no amount of easing entry to U.S. markets can succeed unless the African countries develop a relatively competitive proficiency in producing goods within the price/quality trade-off range that is in demand in world markets, and particularly in U.S. markets. Export growth, then is dependent on a substantial inflow of investment to provide the country's workforce with efficient plant and equipment. The World Bank has calculated that a country must achieve a level of investment equal to 25 percent of the country's GDP in order to achieve a GDP growth rate of 6 percent. By that criterion, Sub-Saharan Africa would need investment levels of $100 billion annually. African countries' annual savings rates vary widely, with some at negative rates, and most clustered around the 10 percent range, which would amount to $40 billion for Africa. Foreign aid and funding from the multilateral development banks (MDB) which are already owed $185 billion by African countries, are unable to bridge a $60 billion gap in any given year, much less every year.

The only potential funding source that could bridge that gap is private foreign investment. Direct investment brings with it a bonus, namely, an infusion of managerial, technical and marketing expertise from foreign corporations setting up facilities in the host country. Private capital flows to developing countries and the Newly Independent States (NIS) quadrupled during the 1990's reaching $211 billion in 1995. Private foreign investment amounted to $126 billion; trade financing and other financial sources and official aid made up the rest. African countries, however, have attracted only $2.2 billion of those private foreign investment flows. Of that, $2.1 billion was for direct investment, most of which is believed to be tied to the petroleum sector in African oil-exporting countries. The fact that Asian countries attracted $72 billion suggests how more open investment policies and trade liberalization practices were in stimulating their rapid growth.

In a similar way, additional private foreign investment could be attracted to African ventures, given the right assurances about the treatment such foreign investment would receive in African countries. Africa might provide the right assurances by negotiating bilateral investment treaties (BIT's) whose terms provide for national treatment, unconditional repatriation of capital, the protection of intellectual property rights, and access to international forums of arbitration for U.S. investors. We have BIT's with four African countries (Cameroon, Congo, Senegal and Zaire) and we are in the process of negotiating a BIT with South Africa.

Investors' concern about their physical facilities is equaled by their concern that the intangible qualities that make their products and services unique are protected through the grant and enforcement of intellectual property rights. For that reason, it has been our policy to negotiate bilateral investment treaties in parallel with bilateral intellectual property agreements. Higher levels of intellectual property protection create a favorable climate for investment and the transfer of technology, both of which will help spur development in these countries. Strong intellectual property protection will also protect indigenous artistic, inventive and commercial activities and create incentives for the further development of those activities.

To help firms identify potential investment projects, several initiatives are under way. The aim is to evaluate potential projects that are worthy of U.S. business interests and work for the development of Africa. The Trade and Development Agency, for example, has identified fifty transportation projects in Africa with substantial U.S. export potential. The most promising of these projects will be highlighted at a conference in September where U.S. firms will meet individually with the African project sponsors to discuss specific business opportunities. Following the conference, the African port, aviation, rail and road officials will travel to manufacturing sites and operational transportational facilities around the United States showcasing American-made goods.

The Department of Energy has conducted a study of electricity needs in South Africa which relies heavily on its coal thermal plants. The potential for trade between Southern Africa and its neighboring countries is significant. Some have substantial hydro electric production potential a method that is environmentally friendly compared to South Africa's coal fired thermal plants. South Africa is likely to seek such clean energy sources for the additional plants that it will need after the turn of the century.

It is obvious that where any of these projects is undertaken by a U.S. firm, substantial exports and investments can be generated. In some cases, U.S. firms' ability to win the projects depends on the availability of financing. The U.S. Export-Import Bank and the Overseas Private Investment Corporation stand ready to finance the export of capital goods involved or provide insurance or investment funds for such projects that meet the agencies' fiduciary criteria. Trade financing can make substantial sums available. Ex-Im Bank, for example, provides financing for over $15 billion of exports in a typical year. The financial condition of some African countries, however, can limit the attractiveness of undertaking financing or investment in those countries. Nonetheless, both of these U.S. government financing agencies will continue to support creditworthy infrastructure projects in Africa, and even in countries that may not be generally creditworthy, these agencies will consider financing projects, provided that the projects are able to generate hard currency earnings for escrow accounts.

Critical to increasing foreign investment in Africa in a sustainable way is making African economies more investor-friendly. As we noted above, evidence suggests that it has been restrictive African trade policies which have resulted in reduced economic growth. USAID has been working with African governments and with the African private sector to liberalize trade policies, create a legal and regulatory environment that encourages private investment, and helps bring macroeconomic stability. USAID's Programs include providing critical technical assistance in such areas as SADC's development of trade protocols, working with the government of Mozambique on the blueprint for commercial and regulatory reform, and promoting non-traditional exports.

Shaping a new comprehensive trade and investment policy for Africa calls for examination of a great number of U.S. agencies which work together to provide new approaches to deal with the new challenges that arise as African countries themselves change and to work through existing institutions like the WTO and the International Financial Institutions to maximize the impact of multilateral resources towards that objective. In our subsequent four reports to Congress on our trade and development policy toward Africa, we will be examining a changing continent. We will refine our policy accordingly and assess the effectiveness of the initiatives we have already proposed.

African Contracting Parties to the

General Agreement on Tariffs and Trade (GATT) 1947

and the World Trade Organization (WTO)

Sub-Saharan Africa -- GATT 1947 Contracting Parties	Sub-Saharan Africa -- WTO Members

Angola (1994)		
Benin (1963)	Benin	22 February 1996
Botswana (1987)	Botswana	31 May 1995
Burkina Faso (1963)	Burkina Faso	3 June 1995
Burundi (1965)	Burundi	23 July 1995
Cameroon (1963)	Cameroon	13 December 1995
Central African Rep. (1963)	Central African Republic	31 May 1995
Chad (1963)		
Congo (1963)		
Cote d'Ivoire (1963)	Côte d'Ivoire	1 January 1995
Djibouti (1994)	Djibouti	31 May 1995
Gabon (1963)	Gabon	1 January 1995
Gambia (1965)		
Ghana (1957)	Ghana	1 January 1995
Guinea (1994)	Guinea	25 October 1995
Guinea-Bissau (1994)	Guinea Bissau	31 May 1995
Kenya (1964)	Kenya	1 January 1995
Lesotho (1988)	Lesotho	31 May 1995
Madagascar (1963)	Madagascar	17 November 1995
Malawi (1964)	Malawi	31 May 1995
Mali (1993)	Mali	31 May 1995
Mauritania (1963)	Mauritania	31 May 1995
Mauritius (1970)	Mauritius	1 January 1995
Mozambique (1992)	Mozambique	26 August 1995
Namibia (1992)	Namibia	1 January 1995
Niger (1963)		
Nigeria (1960)	Nigeria	1 January 1995
Rwanda (1966)	Rwanda	22 May 1996
Senegal (1963)	Senegal	1 January 1995
Sierra Leone (1961)	Sierra Leone	23 July 1995
South Africa (1948)	South Africa	1 January 1995
Swaziland (1993)	Swaziland	1 January 1995

Mediterranean/Saharan Africa -- GATT 1947 Contracting Parties	Mediterranean/Saharan Africa -- WTO Members
Egypt (1970) Morocco (1987) Tunisia (1990)	Egypt 30 June 1995 Morocco 1 January 1995 Tunisia 29 March 1995
African Countries not in GATT 1947	**African Countries not in WTO (as of May 22, 1996)**[1]

LDC Members of GATT 1947 who participated in the Uruguay Round and tabled Goods and Services Market Access Schedules at the Marrakesh Ministerial Meeting in April 1994 have two years from the date of WTO implementation (i.e., until January 1, 1997) to accept the WTO Agreement as original members. These countries are noted in **bold type.** After that date, such countries will be required to negotiate accession to the WTO under Article XII on the same basis as other non-Members.

Mediterranean/Saharan	
Algeria	Mediterranean/Saharan
Libya	Algeria
	Libya
Sub-Saharan	
	Sub-Saharan
Cape Verde	**Angola**
	Cape Verde
Comoros	Chad
	Comoros
Equatorial Guinea	**Congo**
Eritrea	Equatorial Guinea
Ethiopia	Eritrea
	Ethiopia
Liberia	Gambia
	Liberia
Sao Tomé and Principe	**Niger**
Seychelles	Sao Tomé and Principe
Somalia	Seychelles
Sudan	Somalia
	Sudan
	Zaire

Chairman CRANE. Thank you very much, Ambassador.

The sub-Saharan African countries, or the overwhelming majority at least, are members of WTO, but the President's recent report on sub-Saharan Africa urged acceleration of implementation of those commitments.

Do you have any feedback from what the African response may have been to that initiative?

Mr. LANG. No. I should say that, of the 48 countries, I think 38 were members of the GATT, and all of those except 6 have moved over into the WTO. My understanding from Geneva is that those six can complete their accession relatively rapidly. The other 10 will have to go through the normal accession process, and they are at various stages. Some of them will have some problems—Libya, for example. You are right. Most of the countries are in the system or getting in the system.

As far as their reaction, I am not familiar with any formal reaction. I do not know if we have heard anything yet from them. But, I would be glad to look into that and get back to you in writing.

Chairman CRANE. My understanding is that our exports to sub-Saharan Africa in 1995 increased 22.7 percent. Have you any feedback as to where most of that increase occurred? I mean, is it in portions of sub-Saharan Africa, one or two countries, or is it fairly evenly distributed?

Mr. LANG. You know, I have some statistics here. Let's see if I can put my hands on this.

This is 1995 data. The increase from 1994 to 1995 was about—this is in value terms—was $4.4 billion to $5.4 billion. The greatest increase was clearly in South Africa, which is also by far the largest export market, from about $2.2 billion to around $2.8 billion.

There was a significant increase in Nigeria, from $509 million to $602 million, so that is close to $100 million. Others are much smaller than that. The next closest is probably Cote d'Ivoire.

So, the concentration of the export increases is limited to a few countries, just as the utilization of our programs is limited to a relatively small number of countries.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you for being here, Ambassador, and we welcome your contribution.

I hope that as my friend, Congressman McDermott, said, we can anchor something in this Congress, through this Subcommittee, that would cause us to be a part of exploring the possibilities of expanding trade with Africa generally.

It has been my experience that the African countries do not have a constituency here to support their efforts. As a matter of fact, when we were having the newly found democracies, I was surprised to see that they used the same lobbying firms that were used by the colonial countries. But it was explained that, after all, resources have not changed and so trade would have to go on and that they knew better.

But as the years have gone on, it seems as though I do not have those firms lobbying me. In other words, it just seems to be a lack of interest in Africa. Then, of course, along comes Ron Brown and everything is exploding, everything is exciting, it is good for America, good for democracy, and good for both continents. Everything was upbeat.

Some would want to believe that it was the Ron Brown policy. Knowing my government better than that, I would want to know whether anything has been locked into place as a task force to make it easier for Americans and for Africans to trade with each other, and if so, who would be the person that is coordinating this effort.

Mr. LANG. Well, even Secretary Kantor said that he cannot replace Ron Brown. It was a devastating loss for all of us.

Mr. RANGEL. That is why I mentioned a task force.

Mr. LANG. There is an interagency group that was put together to prepare the 134 report. That is now moving forward under the aegis of the National Economic Council. There will be a meeting at my level, which is called the Deputy's level. We plan to continue meeting indefinitely on this project.

I have met once with Mr. McDermott. I need to meet with him and others more frequently. I would like to be in the country more frequently to meet with them. But we are devoting, increasing attention. It is going to be very difficult to replace Ron Brown, but we will try to——

Mr. RANGEL. No, no. I misspoke. I am only talking about not what we had but what do we have now.

I get the impression that we are trying to develop a policy that does not depend on a personality.

Mr. LANG. Yes.

Mr. RANGEL. Having said that, where do you get your input from in order to have a better feel for what that policy should be?

Mr. LANG. I see.

We have, by statute, a private sector advisory committee system that involves—it is probably on the order of 60 different committees, with a couple of thousand American participants, who provide us both policy level advice and sectoral level advice.

Mr. RANGEL. This group is American businessmen and women?

Mr. LANG. Right. And they——

Mr. RANGEL. And, that is a public list?

Mr. LANG. Yes, sir.

Mr. RANGEL. Are there any African Americans involved in that group?

Mr. LANG. Oh, yes, absolutely.

Mr. RANGEL. So, when you make that list public, it will allow other people to have input, at least through that group——

Mr. LANG. You know, USTR, we are ready to meet with anybody who is interested in a trade problem, whether they are in the formal process or not.

Mr. RANGEL. I know that. But meeting with you after a policy is established would be too late.

Mr. LANG. Now. I mean now.

Mr. RANGEL. Well, I would not know who has a positive contribution to make, but knowing who is involved and participating could assist me——

Mr. LANG. I see. We can get you that information.

Mr. RANGEL. So if we had the list, businesspeople, who sometimes are embarrassed by not knowing what to do, would feel more comfortable talking with them.

In the U.S. Congress, besides Mr. Jefferson and Mr. McDermott, where would you normally go to get a feel for the congressional concerns for Africa generally and the sub-Sahara more specifically? Who are the people that you rely on to help you resolve some of the legislative problems?

Mr. LANG. Well, we have two ways of consulting with you—and this issue demonstrates both of them. First, we have a series of statutory advisers to us who we are required by statute to consult with, and we consult on all kinds of problems with——

Mr. RANGEL. Are the Members listed on that statutory list by name?

Mr. LANG. Yes, sir.

Mr. RANGEL. Could you name just some of the outstanding contributors to that policy?

Mr. LANG. Well, they would be the Ranking Member and the Chairman of the Ways and Means Committee and the Finance Subcommittee, and the Ranking Member and Chairman of the Trade Subcommittees in both Houses and so on.

Mr. RANGEL. That necessarily wouldn't mean that the statutory titles are the people that you depend on in formulating a policy where Congress can be helpful, does it?

Or do you meet with these people on a regular basis, statutorily?

Mr. LANG. Yes, sir.

Mr. RANGEL. How often?

Mr. LANG. Frequently. I mean, we meet at the staff level very frequently.

Mr. RANGEL. What I am trying to do is help, without having a meeting with you or with a lot of people, that statutorily have their name listed. If we have got to get a policy, we all ought to get in and be supportive of what makes sense.

Mr. LANG. I agree.

Mr. RANGEL. And so our Subcommittee Chairman has reached out in a very positive way to bring people together, to better understand the obstacles that we have had in the past in increasing trade with Africa, and I would assume to encourage other people to participate, so that we can expand.

Mr. LANG. Right.

Mr. RANGEL. Statutory lists do not work. I mean, are you on the statutory list? Is Jefferson on the list?

Mr. LANG. Sir?

Mr. RANGEL. I mean, he is not on the list.

Mr. LANG. I believe not. But, I said there was a second way we consult.

Mr. RANGEL. Right. I am sorry.

Mr. LANG. That is, we informally consult with everybody who's interested. For example, I have met with Mr. McDermott because we know he is interested. We have met with the staff of——

Mr. RANGEL. I am only trying, Ambassador, to find out the names on your informal list, so that I can work with that informal group. Since I am not a part of the statutory group, I do not know who in Congress has enough interest in this subject matter that they will be willing to work on a congressional task force so that other members would not ask for an appointment with you, but would be interested in supporting the efforts being made by the administration.

Mr. LANG. Let's put it this way. Any way you want to do it, we will do it.

Mr. RANGEL. Thank you. That does not help much, you know. [Applause.]

We will come up with some creative ideas to have us working more closely together.

Mr. LANG. I appreciate that.

Mr. RANGEL. I hope that you might be able to put together an informal task force between the Commerce and State Departments so that we can find out which departments and agencies have the problems and the impediments that can be removed so that we can better establish commerce and trade.

Mr. LANG. I would be glad to do that.

Mr. RANGEL. Whatever you come up with in the same spirit, I will be glad to try to work with you so that there would be a working task force, and then we would be able to report to our statutory leaders as to where we want to go.

Mr. LANG. I appreciate that.

Mr. RANGEL. Thank you, Ambassador.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Ambassador Lang, I appreciate your coming up here. Mr. Rangel raised an issue which I was going to raise, which is the whole question of where should we look for the focus. You're saying that Miss Tyson or Mr. Lake as the chairman of the advisory panel. Is it fair for us to look to them as the focus in the administration?

Mr. LANG. The National Economic Council is chaired by Laura Tyson. It meets on an interagency basis to discuss broad economic policies.

The USTR, Ambassador Barshefsky, chairs an interagency committee that considers the trade aspects of these problems in detail——

Mr. MCDERMOTT. With respect to Africa?

Mr. LANG. Yes, sir, with respect to every——

Mr. MCDERMOTT. Specifically Africa, or generally trade problems?

Mr. LANG. Specifically, generally, however you slice it. And so if you've got trade issues that need to be considered on an interagency basis, that is the way they would be considered. But they would also have to be rolled into broader economic policy considerations that go beyond trade, and the vehicle for that in this administration, which has been very successful, at least in my experience, compared to other administrations, is the National Economic Council.

Mr. MCDERMOTT. Let me ask you a question which puzzles me from looking at the data that we have been able to accumulate.

South Africa is obviously the centerpiece of Africa for the administration. Unfortunately, it seems like it is the only place, because if you look at Ghana or you look at Uganda, who have been good performers economically, you do not see the same kind of high-level support and interest in fostering economic engagement. We have no bilateral commission going with Uganda or Ghana. I wonder what the explanation for that is.

I mean, if a country does well in Africa, why do we not extend the same kind of involvement to them that we have had with South Africa?

Mr. LANG. Well, I am not sure I can speak for the nontrade part of that equation, which is probably a lot of what you're talking about, international finance, development assistance, things like that. I am just not current in those areas.

In the trade area, our interchange so far with most of the countries has been through the WTO, because everybody is in Geneva and everybody has a common denominator of basic obligations. In that context—and it is also easy for countries to be represented there because the UN agencies are there, so typically they have a representative who does both the GATT and the UN agencies.

So far, there hasn't been that much response, whether the countries are doing well economically or not. In other words, we are not——

Mr. MCDERMOTT. Are you saying the problem is the Africans have not come forward to us rather, we have been reaching out to them?

Mr. LANG. Well, we have reached out to them. We need to do more. We are going to do more in the region with these educational conferences, and the WTO is going to do more in the region in terms of reaching out to them. We will support those efforts.

Mr. MCDERMOTT. I read in the papers that when the WTO president suggested that we ought to be doing more for developing countries, the headline said "U.S. Cool to Proposals by WTO", as though he was saying let's reach out to the developing countries but the United States said, "No, no, wait a minute. Let's slow down here." It is a very short article in the international papers, but it is pretty clear that we did not reach out and we were not encouraging him to reach out.

Now, are you saying that that is a change in policy that you are now enunciating here?

Mr. LANG. No. We are going to evaluate all these proposals on their individual merits. I do not know. I am not familiar with the article. But, we are working closely with Director General Ruggiero on this question. There are some things that we cannot do under our current law that I do not think he is suggesting, but others in Geneva are suggesting.

I just do not know what the reference to the article is, but in terms of reaching out——

Mr. MCDERMOTT. I will get it to you because I would like to have your response in writing as to what was suggested there.

Let me just ask one other question, with the indulgence of the chairman. You say that in textiles it is a minor issue, but I want to raise it and let's look at a specific, because this is a trade area where you do have responsibility.

Kenya started up a business; Mauritius started up a business. They began making textiles, and it is quota free, so they thought. They are going along and they get up to the enormous figure of

$100 million, by comparison to the $43 billion that we import, and suddenly a quota call is put on them. The World Bank in analyzing this, said Well, why is this? Well, the United States said we do not want you to make that particular item. We do not want you to make dress shirts. Make something else.

Now, we are into signals, and if you encourage a country to develop an industry, and then you come in and put your foot on them, and then say no, put your investment over here, I would think private sector investors would say to themselves, once is ignorance, and twice is stupidity. If I put my money into a business and I invest and I get squashed, why should I move it over here when I do not know what kind of signal was sent by that first quota. I want to understand why a $100 million business in Kenya or Mauritius was so threatening that it had to have a quota call put on it. That is the crux of my question.

Mr. LANG. First, the program is transparent. There is no reason for an investor to feel that the program cannot be understood and they cannot find their way through the program successfully. Many, many countries have succeeded in doing so over the years. And while they end up with quotas, they also end up with growth factors, and they are able to diversify their production into other products.

You are right. What happened was, whatever that product was—some kind of shirt—came in at a time when the factors that govern the statutory process in this country were all lined up in such a way that an affirmative determination had to be made, and we made a call. We still made what I think is a fairly generous agreement with Kenya on that category. My understanding is that the quota was set 75 percent above the call rate.

But the broader point is that developing countries—we have a multilateral obligation here, with respect to these growth factors and with respect to the rights of all the other countries that are in the system, to access in the U.S. market. If we do not follow that system, we are going to get in trouble with a lot of other countries.

Mr. MCDERMOTT. Who are the other countries we were going to get in trouble with?

Mr. LANG. All the beneficiaries of the WTO——

Mr. MCDERMOTT. Of the multifiber agreement?

Mr. LANG [continuing]. System. Yeah, this is a multilateral agreement we are dealing with here.

Mr. MCDERMOTT. And what was the specific thing that Kenya did wrong? I do not understand. I mean, I truly do not understand how that internally was derived, because the net effect was to lose 11,000 jobs in Kenya in the apparel industry, according to the World Bank.

So, I have a hard time understanding what it was that they did wrong, that necessitated this call being put on them.

Mr. LANG. Well, basically, if imports are increasing and domestic production is declining, the Committee that administers the U.S. quota has to instruct us to make a call. That is basically the way the system works; it is consistent with our multilateral obligation.

But the point is, there is one quota in all of sub-Saharan Africa, and everybody knows exactly how the system works. Kenya did not do anything wrong, but they need to adjust to the way the system actually works in order to be able to take advantage of it. They can do that. They can learn to do that just like every other country in the world has learned to do that.

Mr. McDERMOTT. I guess I still—This is sort of an arcane area to me.

Mr. LANG. It is to me, too.

Mr. McDERMOTT. But the ultimate impact of this quota is to send a horrible signal to an investor who might want to go into an African country, where they believe they are quota free, and then suddenly, because domestic production drops some place in the United States, somehow that triggers some mechanism in the American Government that says we cannot take any more from this quota free country.

That seems to me a pretty hostile investment environment to put your money in if you can figure out some place else to put it.

Mr. LANG. All I am saying is that investors have worked in that climate in poor developing countries for many, many years, and have been very successful by knowing how the program works and taking advantage of it. We do not see any reason why, with a little training, Kenyan investors cannot do the same thing and not have the adverse effects on our market that we cannot tolerate, because we are increasing, and have been for years, imports of textiles and apparel in a very import-sensitive industry.

I do not think that situation ought to be hostile to investment, simply because it has not been hostile to investment in other developing countries. In other words, what I am trying to say is, this system has applied on a less liberal basis for many years, for 30 years before the Uruguay round put in the current liberalization system. All during that period, people were willing to invest in textile industries around the world.

Africa needs to learn how these systems work in order to take advantage of them. They should not be in the situation of having only 6 out of 48 countries taking any advantage of GSP. They should not be in the situation of only one country taking significant advantage of textile market access. But, while it is a transparent program, it is a difficult program to master. We can explain the program because it is all set out in the public record. It should not discourage investment, but they have to follow the rules, and then they will not have a problem.

Mr. McDERMOTT. I think we agree that we want them to take more advantage of the system. I am worried about the signals we send. I think we'll have further discussions, obviously, as this proceeds.

But I think the reason for the APEC-like forum and for some of these initiatives at our level is to say the Federal Government wants to take an interest in Africa, and we are going to take a positive and aggressive interest in Africa rather than a kind of passive, "if you can figure out the rules on how to maneuver, good luck. If you cannot, well, whatever happens to you is your own problem." I would rather shift from that passive view to a more aggressive view that says here's how it works, folks. Do this, do this, do this, and you are in it.

I think you will then have a seeding in Africa, of some countries that will take advantage and begin to make things happen, and others around them will see that that happens. So there is really great potential if we make it a little bit more—You say it is transparent, and yeah, everything is transparent. I have seen the Federal Code and I can read English. But I do not know that it is exactly transparent.

Mr. LANG. I am saying that in comparison with systems in other industrialized countries.

On your main point, I fully support the point about outreach. We need to find ways to work with you on that. I am open to that and any way you want to have that exchange is fine with me.

Mr. MCDERMOTT. Thank you very much.

Thank you, Mr. Chairman.

Chairman CRANE. Again, thank you, Ambassador Lang. We look forward to working with you in the future on this issue.

I would next like to call up our panel of Jeffrey Sachs, Hon. Michael A. Samuels, Kenneth Ofori-Atta, and Daniel O'Flaherty.

Gentlemen, before we commence, if you could try and summarize your remarks in 5 minutes, please do so. But all printed matter will be made a part of the permanent record.

With that, we will commence with Jeffrey Sachs.

Mr. SACHS. Mr. Chairman, thank you very much.

I understand that Mr. Ofori-Atta has to leave soon and he has asked whether he might go first.

Chairman CRANE. Absolutely then, please. Thank you.

STATEMENT OF KENNETH OFORI-ATTA, CHAIRMAN, DATABANK FINANCIAL SERVICES, LTD., ACCRA, GHANA

Mr. OFORI-ATTA. Thank you, Mr. Chairman.

I have been asked to testify to your Subcommittee on sub-Saharan trade issues because, first and foremost, I am an African entrepreneur and a member of the West Africa Enterprise Network, and I am a founder of a financial services company which does business with the United States.

In addition to those qualifications, I schooled in the States and had my university degree at Columbia, and a master's degree at Yale. I also worked on Wall Street for a few years, both with Morgan Stanley and Salomon Brothers.

I would like to describe briefly the context in which I believe U.S. trade relations in Africa should be viewed today, and to make three recommendations as to actions this Subcommittee might wish to make to launch a more dynamic U.S. trade and investment policy based on partnerships and private sector growth and not on dependency and aid, the U.S. relationship to Africa, is unfortunately, largely monopolized by your relationship with African governments as opposed to the private sector and the people. I will then comment briefly on Congressman McDermott's proposal.

Let me begin my testimony by affirming that African nations are currently experiencing an economic turnaround. Indeed, the improved economic outlook resulting from the trend toward liberalization and privatization in Africa makes this continent one of the newest emerging markets. With a 3-percent growth rate of the population, which is about 650 million, it makes it one of the largest potential markets for the United States.

In my view, the African machine, as I would call it, has yet to spin. Africa has a stranglehold on a lot of key resources, like gold, platinum and chromium. In addition, Africa has some of the largest producers of copper, coffee, cotton, and sisal.

How do we then put some "sap" into Africa? How do we grease this machine for it to run? Thanks in part to the World Bank and IMF policies, Africa has begun to make progress. The new prescription of structural adjustment has been well taken. governments are now having to take the private sector much more seriously.

I would also like to affirm that this new emerging market in Africa is one in which the United States is in a superior position to benefit from. The United States has tremendous comparative advantage in sectors where Africa must invest over the next 10 years if its countries are to compete in the global market; that is, telecommunications, energy, electricity, power plants, ports, to name only a few.

The rush and need to modernize businesses and government facilities in Africa through computerization represents such an untapped market. The push to liberalize and privatize in Africa offers U.S. businesses, both large and small, many highly profitable opportunities for investment, joint ventures, and trade with African firms.

Let us look at an example in Ghana on how U.S. markets can capitalize on Africa, in my country investment in the mining sector has amounted to over $6 billion over the last 5 years, much of which was spent on heavy equipment. The United States captured only a fraction of that market, despite its expertise and the recognized quality of its heavy equipment industry. Paradoxically, since the listing of our largest gold company, Ashanti, on the New York Stock Exchange, U.S. institutional holdings is now over 35 percent of this company. And yet, American companies have not benefited significantly from the capital equipment that Ashanti required during the period of its development.

The United States must also find ways of encouraging increased foreign direct and portfolio investment in Africa. While private flows are increasing worldwide, just eight developing countries receive two-thirds of foreign direct investment, and none of those countries is in Africa. U.S. strategy must, by necessity, evolve to encourage the establishment of private sector equity funds and guarantee mechanisms, as suggested by Congressman McDermott, to support and promote U.S. investments in Africa. Sub-region funds and infrastructure funds established with local African partners, will ensure a better record than I believe has occurred in Eastern Europe.

I would also like to, in addition, affirm that there is a new generation of African entrepreneur, who has a global market perspective and possesses the technical skills to team up with U.S. companies, such entrepreneurs include members of the West Africa Enterprise Network. I encourage U.S. businesses to look at this network as a means of forging sustainable business alliances into the West Africa subregion.

I will look at three recommendations which I believe will help toward this course. First, the issue of reversing the brain drain of talent of African professionals. The United States currently trains some of the largest pools of Africans, and I think they could serve as a good link into joint ventures and entrepreneurial ventures between U.S. firms and African entrepreneurs.

A case in point was the first flow of portfolio funds into the Ghana stock market, which was negotiated between my firm, the government, and Salomon Brothers, a firm where I had personally worked in New York. The venture was profitable for the government and the firms listed on the stock market and Salomon Brothers. A $25 million investment was nearly doubled in value during that time.

Many of the emerging markets in Africa have also performed well and, therefore, there is real economic profitability in looking at U.S. trade relations with Africa.

I would also want to look at how to identify credible business partners for the U.S. business community to improve trade information flows and contacts. The U.S. business community, as has been illustrated, may not be fully aware of the potential in the region, and African countries may also not know their way around the GSP or other benefits that the U.S. market may have; therefore, the need to link up and provide the basis for such information so that trade can go on in the private sector.

I would like to stress that the West African Enterprise Network is fully supportive of the spirit and objectives of Congressman McDermott's proposed initiative; that is, removing tariff and nontariff barriers to trade between Africa and the United States; reinforcing regional economic integration in West Africa; promoting dialog among U.S. and African governments and private sector representatives; reducing risks for U.S. corporations entering the African market; and ending quota calls on textiles and apparel from Africa.

Measures to support regional economic integration will certainly allow our countries to access the same benefits as those accruing to members of trading blocks such as NAFTA and the EU.

As private businesspersons in the subregion, who have had to forge our own way to sustain our businesses under very difficult circumstances, with little security and our own capital fully at risk, we are firm advocates of an end to dependency in Africa. We are also firm advocates of free markets and the creation of a level playingfield and a stable environment in our countries, in order to enhance the African private sector's chances for growth and development.

However, Africa, as you know, is not a homogenous society. There are different levels of development which will require different programming emphasis. The graduating countries from USAID's programs and World Bank/IMF programs now require more direct intervention with the private sector, and we hope the Subcommittee will be innovative in finding new sources of support for this initiative.

The beauty of what I believe in Congressman McDermott's proposal is that it is simple, it is obvious, but it is revolutionary as a U.S. policy toward Africa. This is because U.S. policy to Africa will switch from aid and dependence to trade, which is more self-sustaining, more self-respecting, and should have universal appeal to your constituents.

On behalf of the West African Enterprise Network, and as a representative of the new generation of African entrepreneurs, and a product of your schools and corporations, I can assure you that we welcome the actions your Subcommittee and your strategic allies and agencies can take to assist the African private sector and to highlight to African governments that there is no choice but a true partnership between the public and private sector if we are to achieve economic growth. Inasmuch as this Subcommittee's initiative clearly demonstrates to African governments that their private sector is the most critical tool they have to encourage and induce the U.S. Government to support economic development in the region, we pledge our full cooperation to work with this Subcommittee on the initiatives, the design and its subsequent implementation.

Mr. Chairman and Members, I am, in a nutshell, saying that Africa's case is not one of endemic dependency but one of a primed pump, with resources and people requiring retooling for imminent industrialization. the United States has the comparative advantage and capital which Africa needs. The United States should use these resources to assist corporate America to come to Africa, by providing information, by helping to create funds and guarantee mechanisms, by linking up with a new generation of African entrepreneurs, and by giving most favored nation status to those African countries whose governments follow free trade and private sector dogma.

With this, I believe a true partnership and a mutually beneficial relationship will be established and sustained between the United States, and the over 650 million potential consumers of capital equipment and consumer goods which Africa now needs.

I thank you and I appreciate the time.

[The prepared statement and attachments follow:]

TESTIMONY TO THE
HOUSE WAYS AND MEANS COMMITTEE

Hearing on "Sub-Saharan African Trade Issues"
August 1, 1996

by

Kenneth Ofori-Atta

Chairman, Databank Financial Services, LTD.
National Coordinator, West African Enterprise Network

I have been asked to testify at this Ways and Means Committee hearing on Sub~Saharan African Trade Issues because I am an African entrepreneur and a member of the prestigious West African Enterprise Network whose formation was supported by the U.S. Government and because I am a founder of a financial services firm which does business with the United States.

In addition to those qualifications, I obtained my undergraduate degree in economics from Columbia College in New York and my graduate degree in management from Yale. I also worked for four years on Wall Street with Morgan Stanley and Salomon Brothers, before returning to Ghana in 1990, after ten years in the U.S., to create my firm, Databank Financial Services, Ltd. I am therefore a graduate of the best U.S. colleges and very familiar with U.S. corporate culture after my experience on Wall Street.

I would like to describe briefly the context in which I believe in U.S./African relations should be viewed today, and to make three recommendations as to actions this committee might wish to take to launch a dynamic U.S. trade and investment policy based on partnerships and private sector growth, and not on dependency and aid, and a U.S. relationship to Africa largely monopolised by African governments. I will also comment briefly on Congressman McDermott's specific proposal, entitled "Growth and Opportunity in Africa: The End of Dependency."

I. THE CONTEXT

Let me begin my testimony by affirming that **African nations are currently experiencing an economic turnaround.** Indeed, the improved economic outlook resulting from the trend towards liberalization and privatization in Africa makes this continent the newest emerging market in the world. Its population and the 3% per annum growth rate of that population (Africa as a whole represents a market of over 650 million people; West Africa alone, where I live, represents a market of 200 million people) make it one of the largest potential markets in the world.

The 1996 World Bank publication, Global Economic Prospects, estimates that for the first time since 1989, incomes in Sub-Saharan Africa are growing. The region's GDP rose nearly 4% in 1995, to $417 billion, its highest growth rate of the 1990s. Economies are on the rise throughout the continent, with 30 of Africa's 48 countries showing GDP increases higher than 3%. Agriculture and industry have responded to improved macro-economics conditions. In West Africa, industrial growth increased 6.7% in Cote d'Ivoire in 1994. Regular increases have occurred in the last three years in Sahelian livestock, rice, canned fish and textiles production. Cotton production is up 50% in Burkina Faso and Togo and 25% in Mali. Senegalese groundnut production is 40% higher than last year. In Ghana, my country, government and the people have shown remarkable tenacity in implementing and sustaining a difficult structural adjustment program. Average GDP growth in Ghana over the last ten years has been over 4.5% per annum.

However, given Africa's high population growth, economic growth rates of 8-10 percent are required before African countries can significantly reduce poverty. Increased trade with the U.S. is therefore not only a stimulus for economic growth, but also a way out of Africa's persistent poverty and an end to reliance on foreign aid.

The African machine, in my view, has yet to spin. Africa has a stranglehold on certain key resources: five times the gold in the U.S., ten times the platinum in the NIS, with Zimbabwe and South Africa the world's largest producers of chromium. In addition, Africa is the second largest world producer of copper, coffee, cotton and sisal.

How do we put the sap back into Africa? How do we grease this African machine, for it to run? Thanks in part to the World Bank and the IMF and the fall of communism, Africa has begun to make progress. The new prescription of Structural Adjustment has been well taken--governments are now having to take the private sector seriously; prices and wages are being liberalized, along with exchange rates, and state enterprises are being privatized.

I would also like to affirm that **this new, emerging market in Africa is one which compared to the other industrial natios the United States is in a superior position to benefit from.** The United States has tremendous comparative advantage in sectors where Africa must invest over the next ten years if its countries are to compete in the global market telecommunications, energy, electricity, power plants, ports, to name only a few. The rush and need to modernize businesses and government facilities in Africa through computerization represents a huge untapped market. (For example, there are more telephones in New York City than in the whole of Sub-Saharan Africa, just as there are more computers in the New England states than in the 48 countries of my continent). The push to liberalize and privatize in Africa offers U.S. businesses -- large and small-- many highly profitable opportunities for investment, joint ventures and trade with African firms.

We know that exports to developing countries are the fastest growing segment of the U.S. export market. Total exports from the U.S. to developing countries in 1995 amounted to $60 billion, or 40% of total U.S. exports. However, U.S. exports to Africa in 1995 represented less than 1% of total U.S. exports, or $5.5 billion. U.S. exports to Africa in 1995 did rise, however, by 32%, compared to 1990, and by 22%, compared to 1994. (For details on U.S. Exports to Sub-Saharan Africa 1990-1995, refer to the chart on pages 9 and 10).

To further propel the mining industry, tourism and agriculture, which employs the most people in Africa, we need huge investments in packaging, financial services, transportation (rail, road, air, sea), etc.

To capitalize on this emerging market, the U.S. must marshall forces to track these opportunities, to keep its business community informed and to identify those credible African business partners with which U.S. firms can work. It will truly be unfortunate for the U.S. to lose these valuable and lucrative markets through lack of information and contacts.

To cite one example of a lost opportunity:

> In my country, Ghana, investment in the mining sector has amounted to over $6 billion over the last five years, much of which was spent on heavy equipment. The U.S. captured only a fraction of that market, despite its expertise and the recognized quality of its heavy equipment industry. Paradoxically, since the listing of Ashanti Goldfields on the New York Stock Exchange, U.S. institutional holdings is now over 35% of that $2 billion company.

The U.S. must also find ways of encouraging increased foreign direct and portfolio investment in Africa. While private capital flows are increasing worldwide, just eight developing countries receive two-thirds of foreign direct investment, and none of those countries is in Africa. U.S. strategy must by necessity evolve to encourage the establishment of private sector equity funds and guarantee mechanisms to support and promote U.S. investments in Africa. (Sub-region funds, institutional funds, with local partners will ensure a better record than in Eastern Europe).

I would in addition like to affirm that there is a **new generation of African entrepreneur,** who has a global market perspective and possesses technical and managerial skills and business integrity. In West Africa, this new generation of African entrepreneur came together with the support of USAID and OECD/Club de Sahel in 1993 in an organization known as the **West African Enterprise Network.** At the request of our brothers and sisters in East and Southern Africa, the Enterprise Network will expand to those regions in 1997.

The West African Enterprise Network (WAEN) is made up of a select group of 300 second generation business persons from twelve countries in West Africa.[1] The WAEN pursues a dual mission: to improve the business environment in WAEN member countries, and to develop trade and investment linkages among members and with foreign business partners. To ensure its sustainability, the Enterprise Network covers all its operating expenses, on the national and regional levels, from direct member contributions. To support its members in expanding trade, the WAEN created a Regional Trade Information Center which provides reliable, up-to-date information on regional trade flows, suppliers, prices, volumes and transportation costs, as well as information on world market prices, quality standards for exports, packaging and labelling norms. All twelve Enterprise Networks are linked via e-mail, making the WAEN a ground breaker in establishing electronic trade communications capability in West Africa.[2]

In three short years, the WAEN has influenced policy in the twelve countries in which national networks are located and has developed on-going dialogue with national leaders and with the major multilateral donors in the region, including the World Bank and the European Union, and the principal bilateral donors, including the U.S., France, U.K. and Germany. The WAEN has also obtained official observer status with ECOWAS, the regional economic union for West Africa. WAEN members have created several joint ventures among their West African firms and have developed close trade ties to a number of U.S., U.K. and French firms in sectors such as agribusiness, services, manufacturing and portfolio investments.

WAEN members listened attentively when the late Ron Brown, at a luncheon sponsored by the West African Enterprise Network in Ghana, spoke of America's desire to aut-compete the Europeans' traditional trading partners in African markets. We look for signs of a renewed commitment from U.S government and corporations to doing business in Africa.

Given that many WAEN members were educated in the U.S., attending your top schools, most often on scholarship, they have developed true entrepreneurship, with fresh ideas and a firm understanding of U.S. corporate culture, why not look to them to help facilitate the trade eg. Databank/SCOA/IEA partnerships of the future between the U.S. and Africa?

To summarize my view of the context in which U.S./African trade relations should be viewed today, I believe that we are observing the beginning of an economic turnaround in Africa, flowing from the growing trend towards liberalization and privatization. Secondly, I believe that the U.S. is well positioned to gain a superior advantage in this new emerging market in Africa, due to its strong comparative advantage in infrastructure-related markets such as telecommunications, energy, electricity, power plants, etc. Thirdly, I can assure you that there is a new generation of African entrepreneur present on the continent today, with the necessary managerial and technical skills and entrepreneurial bent to forge the kinds of trade partnerships U.S. corporations are seeking.

---

[1]Countries where national Enterprise Networks have been created include Benin, Burkina Faso, Chad, Cote d'Ivoire, Gambia, Ghana, Guinea, Mali, Niger, Nigeria, Senegal and Togo.

2 For additional information on the West African Enterprise network and an overview of the Ghana Network's activities, please refer to the attached reprint on pages 11-12 from the Network's quarterly bilingual newsletter, The Networker.

I. RECOMMENDATIONS

I would like to propose three means for increasing U.S. trade with Sub-Saharan Africa. These are based on my personal experience with U.S./African transactions.

1. Reverse the brain drain of talented African professionals

The United States attracts one of the world's largest pools of African talent. Given that current conditions in Africa make it difficult for them to envision returning to their home countries, the U.S. could assist in structuring programs which would encourage them to return and start their own businesses. Our experience indicates that those entrepreneurial Africans who have returned have consistently sought opportunities for joint ventures and investment partnerships with United States corporations and individuals. Such incentive programs would serve two purposes: first, they would serve to generate economic activity and to create jobs in countries where unemployment is a critical problem. And secondly, and more importantly for U.S. businesses, they would help to create a critical core of U.S.-educated and professionally-experienced Africans with whom U.S. investors are immediately comfortable.

I speak from experience when I state that in order to overcome a foreign investor's innate fear of investment in Africa, he or she must feel at ease with his or her African business partner. Africans who have been educated in the same culture and who speak the same business and management language are natural partners and confidence builders for Americans interested in investing in or exporting to Africa.

A case in point: the first flow of portfolio funds into the Ghana Stock Market was negotiated between my firm and Salomon Brothers, a firm where I had personally worked in New York. The venture was profitable for the Ghana government, the firms listed on the stock market and for Salomon Brothers, who literally doubled their $25 million investment.

It is important that we examine strategies to identify these US trained Africans to help US corporates enter our markets on a long-term sustainable basis.

2. Increase foreign direct and portfolio investment in Africa

Many of the emerging markets in Africa have performed very well, Returns on credible ventures in Ghana are 25% real and plus. Indeed, in 1994, UNCTAD calculated that the average return to American investors in Africa was about 25%, considerably higher than the returns on American investments in Europe. It is critical to continue this trend. We must seek means of attracting U.S. funds and companies into Africa. We strongly support the creation of private sector equity and guarantee mechanisms which would facilitate the willingness and ability of U.S. corporations and individuals to take advantage of trade and investment opportunities in Africa. Once a demonstration effect is created from a series of sucessful ventures, other investors will follow. However to avoid disappointing results from some of the Eastern European funds we propose that these sub-regional and infrastructure funds should be established with local partners.

I would encourage this committee to take action promptly, because the opportunities now coming to light under the liberalization and privatization programs throughout Africa should not be missed. In our view, the U.S. comparative advantage in the infrastructure investment projects outlined above give U.S. firms a strong edge over other competitors. Africa has not retooled for 30 years. The window of opportunity to compete to retool African infrastructure and industry that will exist over the next few years will probably not repeat itself during the following thirty years. For example, it is estimated that Ghana needs 1000 megawatts of power for the next phase of its industrialization. This translates into at least a billion dollars of immediate business and some $10-20 million a year for maintenance services. Companies like Kaiser and Mobil in Ghana will testify to the benefits of this early entry strategy, based on their own experience in the 1960s.

3. **Identify credible business partners for the U.S. business community to improve trade information flows and contacts**

The U.S. business community needs to be able to tap into a pool of credible business partners, to obtain accurate and timely information on markets and prices, to enter into joint ventures and to serve as local counterparts. U.S. government agencies and legislative committees such as your own also need credible African business persons to assist them in the design and implementation of any trade promotion programs or supportive legislation they might envision.

I would like to propose that the West African Enterprise Network, and in 1997, its sister organizations in East and Southern Africa, be tapped to work with this committee and any U.S. private or government agency charged with the implementation of this committee's recommendations, to ensure that the African private sector is a partner in the design of new initiatives or instruments to promote increased U.S./African trade and investment. We are also prepared to provide this committee and any U.S. private or government agency working with it with required trade information from our sub-region as well as business references. The Network should be used as liaison to ensure that you have the appropriate information, in your language and culture.

III. "Growth and Opportunity in Africa: The End of Dependency"

I would like to stress that the West African Enterprise Network is fully supportive of the spirit and objectives of Congressman McDermott's proposed initiative, i.e., removing tariff and non-tariff barriers to trade between Africa and the U.S.; reinforcing regional economic integration in West Africa; promoting dialogue among U.S. and African government AND private sector representatives on bilateral and multilateral trade initiatives; creating privately managed funds and expanded guarantee mechanisms in order to enhance trade between Africa and the U.S. and to reduce risks for U.S. corporations entering the African market; and ending quota calls on textiles and apparel from Africa.

Measures to support regional economic integration will allow our countries to access the same benefits as those accruing to members of trading blocks such as NAFTA and the E.U. The West African Enterprise Network will participate willingly in all initiatives to foster dialogue between government and the private sector. This is an integral part of our organizational mission. But we will also take the initiative to develop direct private-to-private relationships with the U.S. business community, through groups like the Corporate Council on Africa, and in the context of events such as our November 1996 WAEN General Assembly for Trade and Investment in West Africa. Measures to remove tariffs and end quota calls will allow us to compete openly on the free market, which will help us put an end to dependency.

As private business persons who have had to forge our own way to sustain our businesses, under very difficult circumstances, with little security and our own capital fully at risk, we are firm advocates of an end to dependency in Africa. We are also firm advocates of free markets and the creation of a level playing field and a stable environment in our countries, to enhance the African private sector's chances for growth and development.

However Africa is not a homogenous society; there are different levels of development which will require different programming emphasis, the graduating countries from USAID's programmes and World Bank/IMF programmes now require more direct intervention with the private sector...and we hope the comments will be innovative in finding new sources of support for this initiative. The beauty of Congressman McDermott's proposal is that it is simple and obvious but will be revolutionary. This is because US policy to Africa will switch from aid and dependency to trade which is self-sustaining, self-respecting and should have universal appeal to your constituents.

On behalf of the West African Enterprise Network and as a representative of the new generation of African entrepreneurs and a product of your outstanding schools and corporations, I can assure you that we welcome the actions your committee and your strategic allies and agencies can take to assist the African private sector to highlight to African governments that there is no choice but a true partnership between the public and the private sector, if we are to achieve economic growth. Inasmuch as this committee's initiative clearly demonstrates to African governments that their private sector is the most critical tool they have to encourage and induce the U.S. Government to support economic development in the region, we pledge our full cooperation to work with this committee on the initiative's design and subsequent implementation.

Honorable committee members, I am, in a nutshell, saying that Africa's case is not one of endemic dependency, but one of a primed pump, with resources and people requiring retooling for imminent industrialization. The U.S. has the comparative advantage and capital which Africa needs and should use these resources to assist corporate America to come to Africa: by providing information, by helping to create funds and guarantee schemes, by linking up with a new generation of African entrepreneurs, and by giving most favored nation status to those African countries whose governments follow free market and private sector dogma. With this, a true partnership and a mutually beneficial business relationship will be established and sustained between the US and the over 600 million potential consumer and equipment market which Africa represents.

KENNETH OFORI-ATTA

Chairman and Founder, Databank Financial Services Ltd
SSNIT Tower Block, 5th Floor
Private Mail Bag
Ministries Post Office
Tel (233) 21 66-91-10
Fax (233) 21 66-91-00
email: databank~ncs.com.gh

Kenneth Ofori-Atta is the Chairman and Founder of Databank Financial Services Ltd., a full service investment and financial research company incorporated in April 1990 by two graduates of Yale School of Organization and Management and a Ghanaian entrepreneur. The management team consists of professionals with extensive experience in investment banking, mergers and acquisitions, accounting, law, investment research and credit analysis in both the domestic (Ghana) and international markets.

Databank compiles full information on the companies listed on the Ghana Stock Exchange, publishes the Ghana Stock Market Review, maintains the Databank Stock Index for the Ghana Stock Market, conducts valuation analyses for companies being privatized, provides corporate financial and credit rating advice to financial institutions, provides corporate advisory services to firms engaged in aviation, telecommunications, food processing and general manufacturing, and trade finance advisory services for import transactions to Ghana, as well as advisory services to multilateral agencies regarding the establishment of financial institutions.

Mr. Ofori-Atta worked at Morgan Stanley and Co. and Salomon Brothers, Inc. in New York. During his tenure, he worked on over $4 billion in merchant banking transactions in the areas of corporate finance, leasing, real estate and debt and equity capital raising. Mr. Ofori-Atta holds a A.B. in Economics from Columbia University and a MPPM from the Yale School of Organization and Management.

Mr. Ofori-Atta is a founding member of the West African Enterprise Network, a group of 300 second generation business men and women from 12 countries in West Africa. He is the head of the Ghanaian National Enterprise Network and of the Financial Sector Subnetwork which is responsible for policy recommendations concerning the creation of new financial instruments for private sector investment and the diversification of the fmancial sector in West Africa.

Databank has also recently initiated a $10 million regional fund, known as the West African Enterprise Fund, intended to finance expansions and start-up ventures in West Africa, working with country advisors from the West African Enterprise Network for project identification and monitoring.

U.S. Exports to Sub-Saharan Africa 1990 to 1995

Listed by state, in US$

State	Exports in 1990	Exports in 1994	Exports in 1995	%Chg 90-95	%Chg 94-95	Value Chg 90-95	% of State 95 Total Exports
Texas	$886,395,113	$867,376,091	$1,322,262,086	49.17%	52.44%	$435,866,973	1.92%
Louisiana	$291,095,586	$400,156,162	$470,739,483	61.71%	17.64%	$179,643,897	2.24%
California	$284,667,565	$344,582,074	$404,147,983	41.97%	17.29%	$119,480,418	0.42%
New York	$243,871,780	$312,278,108	$373,749,803	53.26%	19.68%	$129,878,023	1.01%
Florida	$224,632,119	$252,259,936	$253,274,340	12.75%	0.40%	$28,642,221	1.07%
Georgia	$195,946,308	$168,305,328	$205,597,651	4.93%	22.16%	$9,651,343	1.66%
Illinois	$174,604,185	$210,100,856	$205,146,933	17.49%	-2.36%	$30,542,748	0.80%
Pennsylvania	$153,697,952	$149,528,198	$188,098,696	22.38%	25.79%	$34,400,744	1.24%
Virginia	$134,356,535	$150,797,168	$165,062,979	22.85%	9.46%	$30,706,444	1.28%
Ohio	$122,481,663	$126,076,658	$147,450,944	20.39%	16.95%	$24,969,281	0.62%
Wisconsin	$84,621,110	$106,618,526	$132,114,286	56.12%	23.91%	$47,493,176	1.30%
New Jersey	$122,414,912	$111,327,272	$131,114,273	7.11%	17.77%	$8,699,361	0.95%
Maryland	$67,803,361	$120,335,914	$128,176,170	89.04%	6.52%	$60,372,809	2.06%
North Carolina	$112,074,772	$88,116,849	$118,399,635	5.64%	34.37%	$6,324,863	0.70%
Massachusetts	$61,528,166	$78,533,210	$102,606,281	66.76%	30.65%	$41,078,115	0.68%
Washington	$230,779,785	$114,329,820	$90,737,495	-60.68%	-20.64%	($140,042,290)	0.37%
South Carolina	$26,813,283	$47,493,258	$81,032,599	202.21%	70.62%	$54,219,316	1.11%
Kansas	$134,160,818	$79,896,491	$77,402,035	-42.31%	-3.12%	($56,758,783)	2.01%
Connecticut	$43,500,078	$66,058,704	$75,125,604	72.70%	13.73%	$31,625,526	1.15%
Tennessee	$49,837,785	$72,859,634	$69,693,513	39.84%	-4.35%	$19,855,728	0.79%
Oregon	$25,854,476	$66,829,282	$64,572,790	149.75%	-3.38%	$38,718,314	0.68%
Minnesota	$66,802,690	$60,070,379	$57,160,696	-14.43%	-4.84%	($9,641,994)	0.65%
Michigan	$32,883,298	$45,140,583	$55,540,681	68.90%	23.04%	$22,657,383	0.20%
Alabama	$50,564,571	$38,566,487	$53,902,204	6.60%	39.76%	$3,337,633	1.00%
Arizona	$21,740,214	$17,306,829	$50,854,895	133.92%	193.84%	$29,114,681	0.50%
Indiana	$33,343,042	$39,723,643	$49,688,764	49.02%	25.09%	$16,345,722	0.43%
Colorado	$19,936,849	$33,789,669	$40,734,027	104.32%	20.55%	$20,797,178	0.78%
Missouri	$17,461,361	$31,312,501	$39,729,881	127.53%	26.88%	$22,268,520	0.91%
Iowa	$14,042,318	$40,632,824	$37,733,511	168.71%	-7.14%	$23,691,193	0.87%
Oklahoma	$26,242,722	$21,686,220	$30,067,639	14.58%	38.78%	$3,824,917	1.24%

State	Exports in 1990	Exports in 1994	Exports in 1995	%Chg 90-95	%Chg 94-95	Value Chg 90-95	% of State 95 Total Exports
West Virginia	$8,595,118	$23,511,923	$29,723,401	245.82%	26.42%	$21,128,283	1.35%
Kentucky	$14,945,165	$17,394,819	$18,829,828	25.99%	8.25%	$3,884,663	0.32%
Nebraska	$7,786,206	$15,113,061	$16,263,553	108.88%	7.61%	$8,477,347	0.80%
Arkansas	$14,631,945	$16,101,086	$14,546,815	-0.58%	-9.65%	($85,130)	0.65%
Delaware	$2,620,543	$8,278,893	$13,971,001	433.13%	68.75%	$11,350,458	0.82%
Mississippi	$19,448,031	$12,258,930	$11,369,992	-41.54%	-7.25%	($8,078,039)	0.41%
Wyoming	$17,686,230	$9,692,161	$10,906,392	-38.33%	12.53%	($6,779,838)	2.56%
Nevada	$3,821,629	$6,478,519	$10,222,768	167.50%	57.79%	$6,401,139	1.24%
Idaho	$3,078,976	$8,764,111	$8,916,438	189.59%	1.74%	$5,837,462	0.45%
Utah	$8,674,898	$4,879,863	$6,781,791	-21.82%	38.98%	($1,893,107)	0.19%
North Dakota	$126,351	$3,637,159	$6,585,399	5111.99%	81.06%	$6,459,048	1.14%
Maine	$1,131,898	$5,112,098	$5,413,252	378.25%	5.89%	$4,281,354	0.36%
New Hampshire	$7,467,275	$3,351,258	$4,881,309	-34.63%	45.66%	($2,585,966)	0.34%
District of Columbia	$2,894,517	$8,933,022	$4,366,770	50.86%	-51.12%	$1,472,253	1.40%
Rhode Island	$2,774,389	$3,552,021	$3,356,746	20.99%	-5.50%	$582,357	0.33%
South Dakota	$550,385	$1,701,814	$2,483,485	351.23%	45.93%	$1,933,100	0.57%
Vermont	$1,320,699	$2,675,558	$2,203,373	66.83%	-17.65%	$882,674	0.06%
Montana	$242,559	$543,496	$1,367,591	463.82%	151.63%	$1,125,032	0.35%
Alaska	$1,323,643	$3,262,382	$641,746	-51.52%	-80.33%	($681,897)	0.02%
New Mexico	$5,382,033	$1,391,651	$380,507	-92.93%	-72.66%	($5,001,526)	0.08%
Hawaii	$5,400	$381,286	$59,444	1000.81%	-84.41%	$54,044	0.02%
U.S. Total	**$4,078,662,307**	**$4,419,083,785**	**$5,395,189,478**	**32.28%**	**22.09%**	**$1,316,527,171**	**0.93%**

Source: Massachusetts Institute of Social and Economic Research

EDITORIAL

THE SUCCESS OF THE GHANA ENTERPRISE NETWORK ORGANISATION: A SOLID ACTION ORIENTED MEMBERSHIP

By: Ken Ofori Atta and George Prah
National Co-Coordinators

The Ghana Enterprise Network is honoured to have been given this opportunity to sponsor the Networker. This will be the second edition fully funded by a Network member country, after the very successful premier sponsorship by the dynamic Mali Network.

We hope to use this issue to showcase the Ghana Network members, through articles and advertisements, snapshot of successes of selected members and the concerted efforts and individual commitments which have over the past three years transformed the Ghana Network into a dynamic and pragmatic force for business advocacy, cross border trade and investments and the private sector.

The Ghana Network was blessed with the foresight of its founding fathers, Messrs. Kwabena Darko and Afare Donkor who were driven by a number of factors:

- they saw the West African Enterprise Network as the missing link in the sub-region's drive for integration and the ascendancy of formal economic and business activities in each country in the sub-region;

- the evolution of a new generation of entrepreneurs as the driving force towards economic and social change;

- the Network as a natural collection of stakeholders who could form a powerful and progressive "think tank"; and as an advocacy group to push for a more business friendly environment; and

- to close the gap between anglophone and francophone West Africa and to showcase to the world the new African entrepreneur.

Our founders were quick to throw the leadership mantle over the new generation of entrepreneurs after stressing these shared principles and emphasising the fact that the Network's legitimacy and credibility will hinge on the Network's continual integrity, non-political stance and commitment to the ideals under-pinning by the Network.

The initial plan for selection of membership included a careful list of entrepreneurs who shared these ideals such as Mr. Louis Casely-Hayford, Chairman of CAL Merchant Bank, Mr. Ben Addae, founder of KIKU Fisheries, Mr. P.V. Obeng the Presidential Adviser, and Ms. Adwoa Okyere, founder and CEO of African Bagg, to name a few. Later additions have included the owners of SEEL Ghana Limited, a communications and trading concern, Messrs. George Hayford and Reginald Hansen-Thompson, partners in the Auditing firm of James Quaigraine & Co., and Messrs. Nich Adi-Dako and Frank Gadzekpo, Managing Director and General Manager respectively of SCOA Ghana Limited.

The message from the onset has been to ensure that the life blood of the Network, that is, its membership is well selected, vibrant and self generating through a keen eye on recruitment of new and dynamic entrepreneurs, and to encourage the emergence of new entrepreneural class in Ghana. The goal has been to form a vision of a new role of business in the country's economic development, and to act as support base for each other. With this consensus and commitment to these objectives, the Network was set to achieve its goals.

Initially, the West African Enterprise Network was an informal association of entrepreneurs bound by a common cause. The realisation quite quickly dawned on the Ghana network that the Network had to be formalised if it was to be made sustainable. The strength of our membership paradoxically was also going to be its weakness if we stuck to an unstructured informal association. Members who were mostly founders and/or chief executives of their firms did not have the time to manage the operational affairs of the Network.

The Ghana Network was, therefore, the first to formalise the organisation. We initiated dues, formally registered the association, found an office and shared secretarial staff with one of the member firms. The result was that Ghana established an infrastructure for take off early and was subsequently elected by the Coordinators and members to manage the Regional Headquarters and Trade Information Center.

The Ghana Network has consequently been at the storm centre of the Regional Network's activities and chalked numerous success. In both 1993 and 1995, we hosted the bi-annual regional conference. In both conferences which hosted over 300 visitors, major policy issues on the micro, macro and regional level were debated, analysed and action plans initiated.

In the most landmark of events, three banks in the West Africa region, Ecobank, Bank of Africa and CAL Merchant signed a protocol of agreement to facilitate intraregional fund transfers from 30 days to 3 to 5 days, at the last conference in November 1995.

The Ghana Network from the beginning identified stakeholders to support its advocacy initiatives. Towards this the Government, the Private Enterprise Foundation and the donor community were informed of our activities and brought in to share in our vision. The Network and the Private Enterprise Foundation have worked closely on the strengthening of private sector initiatives in Ghana; the Network co-sponsored a seminar with the Ministry of Finance on the 20th anniversary of ECOWAS.

Earlier this year, the Network was the only non-US organisation to organise a major 200-plate luncheon for the late U.S. Secretary of Commerce, Ron Brown on his visit to Ghana. The Network in addition, organises monthly lunches and invites prominent personalities and our traditional donor allies USAID, CIDA, EU and CFD to participate.

In this editorial we would like to take the opportunity to salute a few of our members for the incredible successes achieved, and in their pushing the envelope to modernise their firms, having foresight to try the improbable, and all-in-all for exhibiting excellence in their areas of operation.

AKUABA FURNITURE

Chief Executive Mrs. Adusei-Herbstein remains a pioneer in the furniture manufacturing business and the only woman in this highly competitive field. The firm is poised for expansion and is looking to attract a joint-venture partner and to elevate itself into the big league of blue chip companies by potentially seeking a listing on the Ghana Stock Exchange.

Continued on page 4

BUSINESS IN GHANA

GEN member Sydney Casely-Hayford has in less than two years created the most authoritative business magazine in the country "Business in Ghana". This bi-monthly magazine's subscription has soared to 2000. It features the most analytical and thoroughly researched articles on all areas of the economy and policy issues which effect the business environment in Ghana.

DARKO FARMS

GEN founding member, Mr. Kwabena Darko, founder and Chief Executive of Darko Farms continues to lead by example, excelling as the leading producer of poultry in the country and probably West Africa. Mr. Darko has experimented with packaged cut parts and is still the only poultry producer pushing for exports of eggs and day old chicks to the sub-region.

DATABANK

GEN members Ken Ofori-Atta and Keli Gadzekpo's Databank Financial Services Limited remains the most pre-eminent investment banking firm in Ghana. The firm's services include corporate finance advisory, asset management, stockbrokerage services and research. The firm has listed a number of firms on the Ghana Stock Exchange and plays a dominant role in managing the accounts of all the leading emerging market funds with portfolios on the Ghana Stock Exchange. As an example, Databank recently hosted Dr. Mark Mobius, President of the $9 billion Templeton Emerging Market Fund for 4 days in Ghana. Databank is currently collaborating with the West African Enterprise Network to structure a $30 million West African Enterprise Fund to provide equity, quasi-equity and debt financing for WAEN members and the private sector in West Africa. The Fund is expected to be operational this year and will be the first indigeneously created fund in Sub-Sahara Africa.

INTEGRAL (GHANA) LIMITED

Gerald Guice is founder and Chief Executive of Integral, a 200 hectare pineapple plantation in the Eastern Region in Ghana. Following a contact made with a Cameroonian banana exporter in 1994, Ghana Enterprise Network (GEN) member, Gerald Guice successfully negotiated for the Cameroonian's Europe bound reefer vessels to make stops in Tema for Ghana pineapples, whose exports by air had become increasingly fraught with high costs, cargo space limitations and unreliability. Although Ghana's pineapple had began to make a name in the niche market for fresh air-freighted fruits, volumes were relatively small and supplies unreliable. According to Mr Guice "Ghana's small volumes could not justify the use of reefer vessels as an alternative, and the more costly use of refrigerated containers had attained only marginal success".

The sea freighting of pineapples, by sharing reefer space with Cameroonian bananas has opened the door for Ghana pineapples to participate in the high volume export market from which Ghana was hitherto excluded. With the premium Ghana pineapples enjoy on the European market, some exporters are even able to obtain the same prices for sea-freight pineapples as they did on air-freight pineapples. Transit time is short 9-10 days and sea freight costs 1/3 that of air-freight. Volumes have grown from 3,000 pallets in 1995 to nearly 9,000 pallets for the half year of 1996. The surge in demand and profitability has impacted pineapple growing which was beginning to decline as difficulties with air freighting ensued. Exporters cannot meet the demand now and farmers are increasing acreage in response to the higher prices now offered. The future looks bright for Ghana's pineapple exports, thanks to the availability of reefer shipping organised by WAEN member, Chief Executive Gerald Guice. Gerald signals the new breed of entrepreneur educated farmer who in the Network's view is the missing link in the sub-region's drive for food sufficiency and the promotion of non-traditional exports.

MEDIA MAJIQUE

Gaddy Laryea's Media Majique & Research Systems Limited (MMRS) is one of the largest and most successful advertising agencies in Ghana. MMRS initially secured an affiliate relationship with South Africa's Ogilvy and Mather Rightford Scarf-Tripp & Makin. Since 1995, however, the Agency has now become a part of Ogilvy and Mather Worldwide - one of the top advertising agencies worldwide. This new affiliation opens enormous opportunities for MMRS throughout the sub-region due especially to Ogilvy's profound commitment to building branches through the process of "Brand Stewardship". It allows Media Majique & Research Systems in Ghana to be "the most local of the internationals and the most international of the locals" says WAEN member, Chief Executive Reginald Laryea who in our view has made major strides in the industry.

SCOA MOTORS

The reputable sole distributors of Peugeot vehicles, Iveco trucks and Michelin tyres in Ghana has an enviable track record and has undergone a major restructuring and recapitalization in the past year. This has completely transformed this company to recapture its lead position in the motor vehicle industry in Ghana. The restructuring included the participation of some GEN member companies in the equity of the new SCOA and replacement of the management with a new breed of dynamic young professionals headed by GEN member Nich Adi-Dako as Managing Director, and GEN member Frank Gadzekpo as General Manager. They become the first Ghanaian Executives of SCOA since operations opened in Ghana in 1916 in the then Gold Coast Nich Adi-Dako and Frank Gadzekpo were both educated in the US and worked in major US companies for over 10 years before returning to Ghana in 1995.

SOUTH AKIM MFG LIMITED

Following a successful restructuring and recapitalization that involved the participation of Ghana Venture Capital Fund Ltd., the company is now embarked on a major diversification to transform itself from the leading producer of Crown Corks into a major packaging company by the year 2000. To achieve its objective the company has plans to be listed on the Ghana Stock Exchange within two years says GEN member George Prah. George, on his return from the UK in 1988, had to take over the company from his father. He has increased profits and engineered the entry of venture capital into what had been a tight traditional family-held enterprise.

VALCO

GEN member Dr. Charles Mensa has recently been appointed the new Resident Director of Volta Aluminium Company (VALCO) following the acquisition of the principal owners, KAISER Aluminium, in 1990 by Charles Hurwitz. Charles' appointment is reflective of the growing trend in the Ghana corporate scene in which a new breed of young and dynamic and well educated entrepreneurs and professionals are taking over the mantle of leadership from the old guard. VALCO employs over 2,000 people, has sales of over $200 million a year and is the largest tax payer to the Government's treasury. Charles, as you know Chairs the first and leading Think Tank in Ghana, the Institute of Economic Affairs. He established the institute in 1990 on his return from Washington DC in 1992. Today, the institute publishes critical appraisals on all sectors of the economy and has been particularly effective in civil society strengthening and governance. His Institute's seminars have created the most effective fora for open dialogue on the most sensitive of political issues.

This is the spirit of the Ghana Network Vive Le Reseau !!

Chairman CRANE. Thank you, Mr. Ofori-Atta.

If you are on a constraint to catch a flight or something like that, you're free to excuse yourself whenever. Otherwise, we will proceed down the list of the other panelists here and then get to questions.

Mr. Sachs.

STATEMENT OF JEFFREY SACHS, DIRECTOR, HARVARD INSTITUTE FOR INTERNATIONAL DEVELOPMENT, CAMBRIDGE, MASSACHUSETTS

Mr. SACHS. Thank you very much, Mr. Chairman, for the opportunity to appear before the Subcommittee, and let me begin by congratulating you on holding these hearings, and also congratulating Congressman McDermott on the very important initiative that he has launched.

I am here as director of the Harvard Institute for International Development. We are deeply involved through research, training, teaching, and advising in more than 20 countries in Africa right now. It is my overwhelming sense, from that involvement in Africa, that the initiative that this Subcommittee is launching is extremely timely and extremely important.

It is timely because Africa is potentially at a turning point. This has been a disastrous period for Africa. I think we should not hide that fact nor neglect that fact in thinking about the urgency of the situation. Africa has gone through more than a decade of declining per capita income, with worsening social conditions in many countries. That is the downside and also the reason for urgency.

On the other hand, I say that it is a promising moment—indeed, an extremely important moment—because all around Africa governments and private sectors are recognizing the need for fundamental change, and fundamental change in the right direction.

I have had the opportunity in the past year to speak with many finance ministers, trade ministers and heads of government, throughout Africa, and Africa is changing and it is changing in the right direction, and an initiative from the United States could have a fundamental and important effect on this.

I would like to say right at the outset that while the IMF and the World Bank have a role to play, and are playing that role, they cannot begin to substitute for political leadership from the United States and from the Europeans. It is a huge mistake to leave these important issues to the international financial institutions, the bureaucracies down the street here, and believe that the bureaucratic treatment of this issue rather than a high-level and highly visible political treatment can substitute for what's really needed. That is the broad context in which, I think, that Congressman McDermott's initiative is so vitally important right now.

Let me stress that I believe the initiative should be an initiative to promote growth in Africa, because more than anything, more than any other objective that the African governments, USAID, and our U.S. Government should have is to promote economic growth. Economic growth is not only vital, obviously, for raising living standards on a broad base, but also for addressing the critical social and health problems that plague the continent right now.

Without economic growth, no social programs, no social expenditures, no aid, is going to work. So, we need to have the underpinning of sustained and rapid economic growth on the continent in order to make every other objective feasible.

I should also say that Africa's slow growth is not a profound mystery. It is the result, overwhelmingly, of poor economic policy choices that have been made in Africa for a great many years. Those choices were understandable. After the depredations of colonialism, the world markets did not look very inviting to the newly independent countries and, by and large, they closed themselves off from those world markets and from foreign direct investment because of the understandable perception that the world was a hostile place.

This was understandable, but fatally flawed. The result was that Africa did not participate in the boom of worldwide economic growth; it did not participate in the boom of trade. While Asia was learning the GSP route and was gaining textile exports, and then a decade later electronics exports, Africa was stuck in declining commodity sectors with almost no manufacturing exports to speak of. This is the historical legacy, this is the tragedy, and this is the fundamental source of slow growth.

On top of this, African governments did not let private markets function properly, and they ran fiscal excesses to such an extent that the national saving rates were deeply depressed and, as a result, there was not adequate capital accumulation to fuel growth.

The result of all of this is that Africa's slow growth can be explained on an international comparative basis. The evidence that I have submitted for the record shows that the factors of closed markets, low national saving rates, and poorly functioning market systems can account for essentially the entire shortfall of Africa's growth relative to other developing countries.

Now, as I said, the good news is that Africa is changing in every one of these dimensions, and changing fundamentally. But they need our help. They need our attention. We need to help push this process in a dramatic way to really get things moving.

I believe there are at least five areas where help is needed, and in every area, every one of these five areas, there is an important role for the African governments and private sector, and a corresponding role for the outside.

The main role for the outside is not money. The main role for the outside is to help the reform process work, to help the markets take hold, to help the saving go up, to help the openness become consolidated through increased exports, and a constituency within Africa for increased exports.

That yellow light in front of me is frightening, so I am going to jump right to the conclusions so that we have time and that I live within your strict limits, because I am also preaching discipline within economic policy. So, let me try my best to not go too much over.

I have four specific proposals, in the spirit of Congressman McDermott's proposal, with some variation. First, my main proposal is the U.S. Government should launch an initiative for African economic growth. This would raise the political profile, help to put the fire under African governments to get things moving, as they are, but to speed it up and to get going. The U.S. leadership is absolutely important here, and the international financial institutions are no substitute.

Second, we need a system, I believe, of framework agreements, country by country, or with regional groupings such as SADC, which would go through the gamut and be an important incentive, stimulus, and learning experience in the opening of our markets. That would include bilateral investment treaties, double taxation treaties, market access commitments on our side, OPIC and Ex-Im Bank cover, which is desperately needed and could be expanded, and very important, debt reduction, as a part of this.

In a nutshell, and with the red light on and my painful awareness of that, let me say that when it comes to money, if one has to choose wiping off the old slate of bad debt and the overhang which cripples the future, or giving new money through new funding, I would choose to clean the slate and to go for debt reduction and the appropriations that that would require under the Credit Control Act.

The reason is that, with a clean slate and dramatic policy change and reform, we will give the incentive to private markets to invest. There is funding in private markets available, but the policy environment and the debt has to be cleaned in order to really give the push for that private investment to take place.

As you know, the international initiatives on deep debt reduction for the poorest countries are stalled right now. This is deeply regrettable. It requires U.S. leadership on this, and it will require some funding on our part—not dollar for dollar; that is the good news—but subject to the credit control restrictions in our laws to get this done.

Very briefly, let me mention two other areas. This initiative requires coordination with Europe. Europe plays an unhelpful role in several areas, and as Africa's major trading partner, this has to be brought to the fore. We have an important role to play there as well. I cannot elaborate because of the time constraints, but would be happy to in discussion.

Finally, an area for our support that is not going to be easily covered in any other way is for scientific research on agribusiness and industry, energy sources, public health—which is vital right now and requires some of the leading scientific thinking in the world, to address public health issues which affect us but are even more dreadfully affecting Africa right now—and funding for increased educational exchanges, such as the Fulbright program.

Thank you again for the opportunity to testify.

[The prepared statement follows:]

Ways and Means Subcommittee on Trade
Sub-Saharan Trade Issues

GROWTH IN AFRICA
It can be done

by Jeffrey Sachs

About the author:
Jeffrey Sachs is the director of the Harvard Institute for International Development, which is currently pursuing research and advisory projects in 20 African countries. He advised the Bolivian, Polish, Russian and other governments on their economic policies, and his outspoken criticisms of the IMF made him a prominent figure in the debate on western aid to reforming countries. Jeffrey Sachs has long been one of the most persuasive advocates of economic reform in Latin America and Eastern Europe. In this article, he explains why he thinks reform could work wonders in Africa too.

In the old story, the peasant goes to the priest for advice on saving his dying chickens. The priest recommends prayer, but the chickens continue to die. The priest then recommends music for the chicken coop, but the deaths continue unabated. Pondering again, the priest recommends repainting the chicken coop bright colours. Finally, all the chickens die. "What a shame," the priest tells the peasant. "I had so many more good ideas."

Since independence, African countries have looked to donor nations - often their former colonial rulers - and to the international financial institutions for guidance on growth. Indeed, since the onset of the African debt crises of the 1980s, the guidance has become a kind of economic receivership, with the policies of many African nations deciding in a seemingly endless cycle of meetings with the IMF, the World Bank, donors and creditors.

What a shame. So many good ideas, so few results. Output per head fell 0.7% between 1978 and 1987, and 0.6% during 1987-94. Some growth is estimated for 1995 but only at 0.6%, far below the faster-growing developing countries. Asia, for example, recorded a whopping 7% per capita growth in 1995. It is little surprise, then that Africa is receiving about 3% of the foreign direct investment flows to developing countries, while developing countries in East Asia and the Pacific are attracting about 40% of the FDI flows.

Africa is constantly berated for its poor politics and bad economic ideas, though much of the mischief has come from the outside. In the 1960s, the fad at the World Bank and among many donors was "development planning." In the 1970s, this gave way to "basic needs," a doctrine which led the World Bank to back the socialist strategies of soon-to-be-bankrupt Tanzania and other non-market economies. In the 1980s, "basic needs" was supplanted by "structural adjustment" which rightly focused on markets but neglected to set priorities in reform. In the ensuing frustration, the focus in the 1990s has shifted to "good governance:" donors now berate African governments for their "lack of ownership" of reforms dictated by the IMF and World Bank.

Structural adjustment has produced some real gains. Per capita GDP is rising again after more than a decade of decline. Even so, very few cases of rapid growth are emerging from IMF-World Bank programmes. For every case of a success story like Uganda, there are others in which democratization and incipient market reforms have been reversed under the pressure of worsening economic conditions.

The structural-adjustment programmes remain deeply flawed. The IMF is so obsessed with price stability it doesn't think very hard about anything else. The World Bank, on the other hand, has hundreds of good ideas but no priorities. Standard bank programmes call on weak, debt-ridden governments to introduce value-added taxes, new customs administration, civil-service reform, privatization of infrastructure, decentralized public administration and many other wonderful things - often within months. It was, alas, par for the course when the bank set 111 conditions in its "policy-framework paper" on Kenya.

This overflow of conditionality may be a reflection of the Bank's own organizational weakness. In a period of tightening budgets, each department has drummed up business for itself by pushing for roles in as many loans as possible. Leadership by previous bank presidents was too weak to set sensible priorities - which in turn helps explain why structural adjustment-policies have failed to promote vigorous growth. The main challenge for the new president, James Wolfensohn, is not, as is sometimes suggested, mainly managerial. It is conceptual: to set priorities.

The best evidence of the failure of the IMF and World Bank in Africa lies in the programmes themselves. The institutions have actually been targeting low levels of growth per head throughout Africa - often just 1-2% per year - even though worldwide evidence shows that market-oriented poor countries can grow faster than richer countries. Many low and middle-income nations are averaging per capita growth of more than 5% per year. Of the 53 countries in Africa, only Botswana, Mauritius, and Uganda (since 1989), have come close to that average, and all apparently grew at less than 5% per capita in 1995.

The IMF and World Bank would be absolved of shared responsibility for slow growth if Africa were structurally incapable of growth rates seen in other parts of the world or if the continents's low growth were an impenetrable mystery. But Africa's growth rates are not huge mysteries. The evidence on cross-country growth suggests that Africa's chronically low growth can be explained by standard economic variables linked to identifiable (and remediable) policies. Remedies that have worked in East Asia can also work, with suitable modification, in Africa. Where they have been tried in Mauritius, to some extent in Botswana and (very recently) Uganda, the result has been growth at East Asia rates.

Why has Africa failed?

Studies of cross-country growth show that per capita growth is related to:

- the initial income level of the country, with poorer countries tending to grow faster than richer countries;
- the extent of overall market orientation, including openness to trade, domestic market liberalization, private rather than state ownership, protection of private property rights, and low marginal tax rates;
- the national saving rate, which in turn is strongly affected by the government's own saving rate; and
- the geographic and resource structure of the economy, with landlocked and resource-abundant economies tending to lag behind coastal and resource-scarce ones. To their credit, structural-adjustment programmes have helped Africa to focus on the second and third of these problems.

These four factors can account broadly for Africa's long-term growth predicament. While it should have grown faster than other developing areas because of relatively low income per head (and hence larger opportunity for "catch-up" growth), Africa grew more slowly. This was mainly because of much higher trade barriers; excessive tax rates; lower saving rates; and adverse structural conditions, including an unusually high incidence of inaccessibility to the sea (15 of 53 countries are landlocked) plus a high reliance on natural-resource exports.

Fortunately, the geographical and resource conditions play only a modest role in Africa's growth shortfall. The lion's share can be attributed to the lack of openness, lack of market incentives and lack of national saving. The table shows the result of a study into how much these factors contribute to Africa's growth shortfall. The study calculates that, because of its low initial income, Africa should have grown 1.4 percentage points faster than a sample of eight fast-growing developing countries in 1970-1989. In fact, growth was 3.1 percentage points slower - an overall shortfall of 4.5 points. Of this, the study attributes 1.8 points to lack of trade openness; 1.9 points to low savings rates; and 0.9 points to highly distorted domestic markets. Africa's innate structural conditions, including landlockedness and natural-resource dependence, explain another 0.5 points of slower growth, not the bulk of the shortfall. Once these factors are taken into account, there is only a small (0.5 point) residual, or unexplained puzzle, to Africa's growth.

If the policies are largely to blame, why, then, were they adopted? The historical origins of Africa's anti-market orientation are not hard to discern. After almost a century of colonial depredations, African nations understandably if erroneously viewed open trade and foreign capital as a threat to national sovereignty. As in Sukarno's Indonesia, Nehru's India, and Peron's Argentina, "self sufficiency" and "state leadership," including state ownership of much of industry, became the guideposts of the economy. As a result, most of Africa went to a largely self-imposed economic exile. Colonial institutions such as agricultural marketing boards became instruments for more government intervention, and the international community became a willing partner to the new development strategies.

The statist and closed-economy strategy was already in deep trouble by the early 1980's, but a decade or more of foreign aid postponed collapse in many countries, ate the cost of delaying reforms and adding to the mountain of foreign debt. Within African countries, vested interests (usually urban based, and against smallholder agriculture) kept the old strategies alive. In the donor countries, cold-war machinations, naivety, and narrow commercial interests linked to foreign aid, led donor governments and the international financial institutions to turn a blind eye to the growing policy failures. Now, however, as western aid money dries up and a new generation of leaders is elected in Africa, it is becoming harder and harder to ignore the policy failings. The question now has become: what can be put in their place?

Adam Smith in 1755 famously remarked that "Little else is requisite to carry a state to the highest degrees of opulence from the lowest barbarism, but peace, easy taxes, and tolerable administration of justice." A growth agenda need not be long and complex. Take his points in turn.

Peace, of course, is not so easily guaranteed, but the conditions for peace on the continent are better than today's ghastly headlines would suggest. Several of the large-scale conflicts that have ravaged the continent are over or nearly so. The end of apartheid has ended confrontations throughout Southern Africa. Mozambique and Namibia are at peace, and in Angola, the fighting is subsiding. Relations between Uganda, Kenya and Tanzania are better than at any time in the past 25 years. Ethiopia's 30-year civil war has come to an end with Eritrean independence. The ongoing disasters, such as in Liberia, Rwanda and Somalia, would be better contained if the West were willing to provide modest support to African-based peacekeeping efforts.

"Easy taxes" are well within the ambit of the IMF and World Bank. But here, the IMF stands guilty of neglect, if not malfeasance. African nations need simple, low taxes, with modest revenue targets as a share of GDP. Easy taxes are most essential in international trade, since successful growth will depend, more than anything else, on economic integration with the rest of the world. Africa's largely self-imposed exile from world markets can end quickly by cutting import tariffs and ending export taxes on agricultural exports. Corporate tax rates should be cut from rates of 40% and higher now prevalent in Africa, to rates between 20% and 30%, as in the outward-oriented East Asian economies. As a rule of thumb, marginal tax rates of any kind higher than 20% will surely be evaded, and will open festering wounds of corruption. Simple tax schemes - such as low and uniform tariff rates of around 10% - vastly simplify administration, and are likely to raise government revenues in the process.

Remarkably, the IMF often stands against tariff reduction and simplification. Looking at spreadsheet calculations rather than reality, IMF missions frequently insist on packages of higher tax rates combined with "improved tax administration" to satisfy overly-ambitious revenue objectives. The Fund should know better than to urge Mozambique, whose income is $100 per head, to collect 23% of GDP in government revenues, especially when the current tax system is already hemorrhaging with evasion, corruption and maladministration. The Fund has since backed down, slightly. But it might note that the American federal government has never aimed to collect as much as 23% of GDP in revenues.

Adam Smith spoke of a "tolerable" administration of justice, not perfect justice. Market liberalization is the primary key to strengthening the rule of law. Free trade, currency convertibility and automatic incorporation of business vastly reduce the scope for official corruption and allow the government to focus on the real public goods - internal public order, the judicial system, basic public health and education, and monetary stability. A vastly simplified reform agenda, then, is essential to improved government performance.

Governments should concentrate on setting ambitious growth targets founded upon openness to trade and should pursue them by making conditions comfortable for new exporters, domestic and foreign. That means keeping currencies convertible and depreciating them when necessary to protect the profitability of the emerging export sectors. Trade policies should guarantee, above all, that exporters have ready access to capital goods and intermediate inputs at world prices. Export-processing zones for labor-intensive manufacturing are especially helpful here. And tax policies should offer generous terms for all investors, whether domestic or foreign.

All of this is possible only if the government itself has held its own spending to the necessary minimum. The Asian economies show how to function with government spending of 20% of GDP or less (China gets by with just 13%). Education can usefully absorb around 5% of GDP; health, another 3%; public administration, 2%; the army and police, 3%. Government investment spending can be held to 5% of GDP but only if the private sector is invited to provide infrastructure in telecommunications, port facilities and power. Fortunately, foreign investors are lining up for such project financing, even in less dynamic Africa. To the extent that foreign investors can help, African governments themselves should typically focus on road-building, especially roads to connect rural areas to national markets and international ports. This is especially vital in Africa, where much export-led growth should come from smallholder agriculture - such as cotton in the Sahel, tea in Kenya, tobacco in Malawi - and often in rather remote areas.

This fiscal agenda excludes many popular areas for government spending. There is little room for transfers or social spending beyond education and health (though on my proposals, these would get a hefty 8% of GDP). Subsidies to publicly-owned companies or marketing boards should be scrapped. Food and housing subsidies for urban workers cannot be financed. And, notably, interest payments on foreign debt are not budgeted for. This is because most bankrupt African states need a fresh start based on deep debt-reduction, which should be implemented in conjunction with far-reaching domestic reforms. The precedents for deep debt-relief are notable and growing, starting with Germany in 1953 and Indonesia in 1969, and now including Poland, Egypt and many others.

Can aid support growth?

Here we reach the last element needed to make Africa grow: aid. Foreign aid, notoriously, has not made much difference in Africa. It has sometimes delayed reform and has sometimes been irrelevant. Aid works only when it is limited in time (and thus is not a narcotic), and is part of an overall market-driven growth strategy. Both conditions have been lacking: aid has become a way of life for many countries, and IMF-World Bank programmes have rarely constituted a growth strategy.

Before public support for foreign assistance is undermined entirely by cynicism and fatigue, it must be recast along workable principles. First, aid should be much more selective. It should go only to those countries taking strong measures to promote market-based, export-led growth. Second, aid should be limited in duration. It can help reform-minded governments pay their bills during the initial period of reform; it cannot substitute for exports or growth in the longer term. It is hard to see why any balance-of-payments support should extend beyond another decade, and many aid programmes should be phased out sooner. A pre-announced sliding scale of aid - generous at the start, declining later - would concentrate the minds of African policy makers wonderfully.

Part of the assistance should come in the form of debt cancellation. No one can doubt the dreadful policy errors of the past, nor the mutual complicity of African and donor nations. A fresh start requires a thick line drawn under the past. As with other forms of assistance, debt cancellation should be deep, phased over time, and conditional on fundamental reforms.

The richer countries would do well to reorient a significant proportion of flows to regional assistance programmes, in support of public goods beyond the reach of individual African countries. For example, the World Bank and World Trade Organization should take a special interest in landlocked countries - born with a strike against them - to help guarantee safe, secure and efficient access to ports. Donors would do well to bolster the more challenging public good of regional peace, by giving greater and more timely financial backing to regional peacemaking operations. Finally, science and technology (especially in public health and agro-industry) could usefully be supported at the regional level.

The biggest source of support from donor nations would also be the cheapest. America, Europe and Japan should launch a "New Compact for Africa," guaranteeing open markets for African exports and committing themselves to help reintegrate Africa into the world economy. The commitment would help prove to both sides that the long period of economic marginalisation is over, and would energize both African nations and the West to overcome the practical obstacles to a new dawn of rapid growth throughout Africa.

Chairman CRANE. Thank you, Mr. Sachs.
Mr. Samuels.

STATEMENT OF MICHAEL A. SAMUELS, PRESIDENT, SAMUELS INTERNATIONAL ASSOCIATES, INC.

Mr. SAMUELS. Mr. Chairman, Mr. McDermott, thank you for holding this important hearing.

Your hearing comes at an exciting moment for U.S. policy toward Africa. The Clinton administration has raised the role of economics in U.S. policy toward Africa beyond that of previous administrations through a number of significant actions. Because of this, more was expected of the new trade and development policy toward Africa, which President Clinton submitted in February.

Unfortunately, the administration's document lacked imagination and was more a justification for traditional development programs than a policy advocating the expansion of African trade.

But much has been happening here in Congress. The bipartisan effort led, Mr. Chairman, by Mr. McDermott and you, contains substantially more imaginative ideas than are included in the administration's policy. Several of the countries of Africa are likely to be among the next generation of African "tigers" with high growth rates.

Mr. Sachs' suggestion of a U.S. policy that would promote growth is absolutely on target. The United States should both participate in that growth and, by our government trade and investment policies, contribute to it.

There are geopolitical and strategic reasons for U.S. involvement in Africa in the post cold war era, in spite of what some non-African foreign policy observers are alleging in articles that they are writing in places like Foreign Affairs Magazine. Economically, Africa possesses 20 percent of the world's population, yet accounts for only 2 percent of world trade, and this is sure to change. There are, therefore, opportunities.

I would like to offer 10 ideas for your consideration. First, U.S. trade policy should distinguish among African countries by their willingness to pursue economic liberalization and reward those countries that pursue serious trade policies.

Second, most African countries have an import regime that penalizes information technology modernization, through high tariffs and other market access barriers. The United States should propose an initiative to eliminate tariffs on personal computers and related components. Assistance under the Leland initiative on Internet access might even be tied to the elimination of barriers in this sector.

Third, current programs within the Agriculture Department, OPIC and Ex-Im, should be bundled to encourage collaboration with countries that make agricultural development and agribusiness opportunities a priority. This can be done in collaboration with the World Bank and other non-U.S. development institutions, if necessary.

Fourth, I agree with the call for an immediate significant increase in duty-free and quota-free textile and clothing imports from Africa. If, as Mr. Lang suggests, it is not a problem, why should he be worried about it? This would be both politically and economically helpful to Africa and, in spite of the questions from Mr. Payne, I do not believe that it would be harmful to U.S. interests and I think that can be displayed.

Fifth, there will be many infrastructure projects in Africa over the next few decades. In the future, wise African governments will take advantage of the private sector for infrastructure development, and this will lead to opportunities for exports. We should be part of that.

Sixth, the United States should insist that any preferences given to other industrialized countries be granted on the basis of most-favored-nation and national treatment principles, as required by the WTO. This requires vigilance, for example, in the preferential arrangement that South Africa is currently negotiating with the European Union.

Seventh, investment must play an important role in Africa's development. Investment from the United States often leads to trade with the United States. The new policy must include investment-related priorities, including bilateral investment and tax treaties.

Eighth, high tariffs and other market access problems exist in many African countries. There should be a major effort to catalogue African market access barriers to U.S. products and then to negotiate to reduce them.

Ninth, the World Bank and the IMF play significant roles in Africa. The Bank has often been relatively positive in its trade efforts. Often, however, the IMF's emphasis on tax revenues deters private sector industrial growth and encourages the maintenance of tariffs that are counterproductive to economic growth. The United States should exercise its influence with both those organizations to advocate sound trade policies.

Finally, I recommend a specific Assistant USTR for Africa, with enough of a budget to travel around the continent, to interact directly with those countries of growing economic importance to the United States, and with the intention to undertake reciprocal understandings and liberalization of trade regimes.

As a former Deputy USTR, Mr. Chairman, I can tell you that Africa over the years has gotten short shrift by USTR, and the fact that that entire bevy of people who came with Mr. Lang who testified, and then left not to hear the rest of this, is indicative of the real lack of interest that USTR has in Africa. I think that is a good part of the problem.

Mr. Chairman, Africa can be an important trading partner for the United States. Our trade policy should be crafted to allow that to happen.

Thank you for letting me testify this morning.

[The prepared statement follows:]

STATEMENT BY
MICHAEL A. SAMUELS
PRESIDENT, SAMUELS INTERNATIONAL ASSOCIATES, INC.
TO THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
JULY 16, 1996

Mr. Chairman, and Members of the Committee, thank you for holding this important hearing on U.S. trade with the countries of Sub-Saharan Africa. I am pleased to be able to testify, as the subjects you are addressing today have long been of interest to me -- African development, U.S. policy toward Africa, and U. S. trade policy in general. You are to be praised for uniting them at this hearing.

By way of introduction, I am a former U.S. ambassador to Sierra Leone and former Deputy U.S. Trade Representative and ambassador to the GATT. As an international trade consultant in Washington, several years ago I began to notice that there was little attention given to Africa by those interested in trade or to trade by those interested in Africa. That observation led my firm to create the monthly breakfast series, the **Africa Trade Forum**, which, I am pleased to say, is widely viewed as having raised the level and frequency of discussions on Africa trade policy.

Your hearing comes at an exciting moment for U.S. policy toward Africa. The Clinton Administration has raised the role that economic issues play in U.S. policy toward Africa beyond that of any previous administration. A number of significant efforts have been made the current administration including: the White House Conference on Africa early in the Administration, Ron Brown's unprecedented efforts to boost commercial engagement in Africa, the appointment of a high-quality, high-level commercial officer dedicated to U.S. interests in Southern Africa, the business-oriented U.S.-South Africa Binational Commission, the Business Development Committee, and focused efforts to encourage U.S. commercial success in francophone Africa.

It was in this upbeat context that many observers of African economies awaited the new trade and development policy toward Africa which President Clinton submitted in February.

Unfortunately, for the most part, the Administration's document reflected the heavy hand of a non-imaginative OMB and was more a justification for traditional development programs than a policy advocating the expansion of African trade as a vehicle for growth and subsequent development. Although the Administration later launched the Leland Initiative, a commendable effort to speed Internet technology to those African countries that are most interested in and capable of using it, it has been left to Congress and members of the public to promote a comprehensive vision of expanding Africa's ability to trade globally and, of particular interest for us, with the U.S.

Concerned members of Congress and staff who have been most interested in U.S. trade policy toward Africa have been frustrated by the Administration's approach. The bipartisan initiative led, Mr. Chairman, by Mr. McDermott and you, has sought more ideas and input from the knowledgeable public than the Administration did. Not surprisingly, the results of your effort contain substantially more imaginative ideas than is included in the Administration's policy.

What will hopefully emerge, after the Administration digests the Congressional product, will be a more comprehensive, more imaginative policy on trade and development toward Africa than any the U.S. has ever had.

In light of cuts in foreign assistance and IDA funding, it is crucial to spur private sector involvement in Africa if the U.S. is to remain a major player there. Several of the countries of Africa are likely to be among the next generation of economic "tigers" with high growth rates, and the U.S. should both participate in that growth and, by our government trade and investment policies, contribute to it.

Those who look at economic and trade policy and focus exclusively on Europe, Asia, and Latin America are myopic. It is possible to devise an African trade policy that will persuade an American people that is skeptical about new economic programs in general and about Africa in particular. Such a policy would also be wise for geopolitical and strategic reasons in the post-Cold War era. The bottom line, however, is that since Africa possesses 20 percent of the world's population, yet accounts for only 2 percent of world trade, such is a policy is long overdue.

Any policy these days must emphasize that, both in a practical sense in this era of declining budget support for international governmental aid budgets and in a policy sense as well, capturing the interest and investment of the private sector is the path to growth.

U.S. trade policy should distinguish among African countries by their willingness to pursue economic liberalization, and reward those countries that want to be part of international trade through imaginative and policies.

I would like to take this opportunity to emphasize a few areas where a mutuality of interests between the countries of Africa and the U.S. in the trade field exists and to suggest some ways by which your efforts and those of the Administration might be fashioned in the future. I am pleased to note that several of these ideas are included in the proposal being drafted by you and Mr. McDermott.

Following are a few ideas for your consideration.

- **An Information Technology Initiative.** Most African countries have an import regime that penalizes modernization and technological entry onto the global information highway, through high tariffs and other market access barriers. As a result, many of the tools of modernization that are easily available in industrialized countries are luxuries in Africa. Societies that lag behind technologically today are dooming future generations to become even further disadvantaged. The U.S. should propose an initiative to **eliminate** all tariffs on personal computers and related components. An elimination of tariffs would lead not just to an expansion of the ownership and use of these fundamental tools of the modern age, but would also attract investment in the production of both components and final products, so that far-sighted countries of Africa can be included in the global production and sales strategies of major international computer companies. Such an initiative could be devised to promote desired regional cooperation. Assistance under the Leland initiative might be tied to the elimination of barriers in this sector.

- **An Agribusiness Initiative.** Current U.S. programs within the Agriculture Department, OPIC, and the Export-Import Bank should be bundled to encourage collaboration with countries that make agricultural development and agribusiness opportunities a priority. This is an area where one can envision 1) a strengthening and broadening of the market economy; 2) addressing problems of unemployment; 3) a frontal attack on food shortages; and 4) collaboration with the World Bank and other non-U.S. institutions in the development field.

- **A Special Textile Initiative for Africa.** Trade in textiles and clothing is politically sensitive. This is also one of the easiest sectors for industrialization in developing countries. It would be both politically and economically helpful to Africa and not harmful to U.S. interests for there to be a significant increase in duty-free and quota-free textile and clothing imports from Africa -- particularly ahead of the natural ending of the Multifiber Agreement in 2004. I urge you to give the countries of Africa assistance in preparing for the time when there is free trade in textile products.

- **An Infrastructure Initiative.** An African trade policy needs to reflect the probability that there will be many infrastructure projects in Africa over the next few decades. While many of these projects (energy, water, transportation, etc.) in the past were the purview of public-sector entities and public sector financing, in the future, wise African governments will take advantage of the interest of the private sector and the investment such interest can bring. This is sure to lead to large opportunities for exports, and a U.S. policy should emerge that is poised to assist and take advantage of this development.

- **Precluding Preferences Against U.S. Interests.** An African trade policy needs to address how the U.S. should react to agreements African governments make with other industrialized countries. Typically, such agreements give preferential treatment to foreign companies, goods or services while discriminating against U.S. interests. The U.S. should insist that any preferences given to other industrialized countries be granted on the basis of Most Favored Nation and National Treatment principles, as required by WTO membership. This requires vigilance, for example, in the preferential arrangement South Africa is negotiating with the European Union.

- **Trade Follows Investment.** Given the vital role that investment must play in the development of African countries, and given the clear indication that, especially for developing countries, investment from the U.S. often leads to trade with the U.S., the new policy must contain several key investment-related priorities, including an emphasis on bilateral investment and tax treaties.

- **Removing Market Access Barriers.** Tariffs are relatively high in many African countries, but many other market access problems also exist. There should be a major effort to catalog African market access barriers to U.S. products. Such a list should include not only those that are WTO incompatible, but also those where WTO acceptable tariffs are so high as to discourage American exports – extremely high tariffs on large vehicle engines for example.

- **Encouraging the International Financial Institutions to Advocate Sound Trade Policies.** The World Bank and the International Monetary Fund (IMF) play significant roles in the economic lives of African countries. In recent years, the Bank has increasingly shown an understanding of the importance of trade, especially exports, for African growth. This trend should be encouraged. The IMF, however, has not always advocated sound trade policies. Often, the IMF's emphasis on tax revenues deters private sector industrial growth and encourages the maintenance of tariffs that are counterproductive to economic growth. The U.S. should exercise its influence with both those organizations to advocate sound trade policies.

- **Need for an Assistant USTR for Africa.** As the agency most relevant to trade policy, USTR has, since its founding over 30 years ago, not taken Africa seriously. While I realize that USTR is (and should be) a very lean agency, there should be a specific Assistant USTR for Africa – with enough of a budget to travel around the continent to interact directly with those countries of growing economic importance to the U.S. and with the intention to undertake reciprocal understandings and liberalization of trade regimes. Advocating such activities and leading the internal African trade efforts of the U.S. government should be an integral part of the responsibilities of this Assistant USTR.

Mr. Chairman, there is much more that might be said about a future U.S. trade policy for Africa, but I wanted to share with you some ideas that I fear may be omitted by others. Africa must be viewed as an important trading partner for the U.S. Our trade policy should be crafted to allow that to happen. I am prepared to answer any of your questions on my ideas. Thank you again for inviting me to testify this afternoon.

Chairman CRANE. Thank you, Mr. Samuels.

Since we have another vote in progress right now, before Mr. O'Flaherty testifies, we should probably go over and cast our votes and return. So, we will take a temporary break here in our testimony.

Thank you so much.

[Recess.]

Chairman CRANE. Will everyone please take seats.

Mr. O'Flaherty.

STATEMENT OF DANIEL O'FLAHERTY, EXECUTIVE DIRECTOR, U.S.-SOUTH AFRICA BUSINESS COUNCIL, AND VICE PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL

Mr. O'FLAHERTY. Thank you very much, Mr. Chairman.

My name is Daniel O'Flaherty, and I appear today as executive director of the United States-South Africa Business Council, which is an association of U.S. companies doing business in South Africa. I am also vice president of the National Foreign Trade Council, which is an association of American companies who trade and invest internationally, including in Africa.

Many of the companies that we work with as the National Foreign Trade Council have disinvested from South Africa, and a part of the interest that we have is attracting those companies to reinvest in South and Southern Africa and expand their operations on the continent.

We welcome the introduction of the legislation described by Congressman McDermott. I wanted to say that I believe there will be considerable support in the U.S. business community for that legislation, and that is because, as exporters, American companies understand the importance of jobs and incomes being generated in Africa so that they can be consumers of American exports, and as investors, American companies understand the importance of their being labor forces and contacts, frameworks, in Africa within which they can work.

Now, these hearings take place at a time of deep pessimism about Africa, about its economic growth, its political stability, and the development of civil societies. Events in Rwanda, Burundi, Somalia, Sudan, Liberia, Nigeria and elsewhere have fed a perception that Africa is fated to continue its decline into poverty and turmoil. In this view, it follows that Africa's economic importance to the United States and to the developed economies is limited to being a source of raw materials and that hopes for free market economies to take root in Africa are destined to be disappointed.

We strongly dissent from this view. We dissent because we do not believe that the fate of more than 600 million people on the African continent can be separated from our own. We are also convinced that increased commerce between the United States and Africa will benefit both.

The United States-South Africa Business Council and the National Foreign Trade Council do take the view that there are significant commercial opportunities in Africa, but that there is a very important role to be played by government and business working in tandem, and that by working in tandem we can foster pockets of liberalization—magnet economies, if you will—that are stable, growing, and will create points of reference for the gradual expansion of free market democracies in Africa.

This is the greatest single contribution the United States can make to African development. It is true that official development assistance has an important role to play, but it is, in our view, a supporting role. We endorse measures to enhance the capacity of the U.S. Agency for International Development to support and cooperate with U.S. corporations operating in Africa. This has not been their focus, and we welcome indications that USAID is restructuring itself to take a greater interest and to increase its skills in helping U.S. business generate private sector activity.

Above all, there needs to be close coordination of U.S. Government initiatives with private business activity. The United States-South Africa Business Development Committee, which is part of the United States-South Africa Binational Commission that has been alluded here today, met in Washington last week. It is an example of such cooperation that could be replicated in other parts of Africa. It is itself a replication of a committee of the Gore Chernomyrdin Commission that functions with Russia. But apart from its limitations, and taking into account its limitations, it is a framework in which impediments to commerce can be identified and solutions can be recommended to the governments, and governments and business can cooperate in the removal of impediments.

Now, one such impediment is the small scale of most African economies, which Mr. Sachs has alluded to. In this connection, we endorse the view that the United States should work with our African colleagues to encourage closer regional cooperation centered on magnet economies, to create larger markets that will be more viable economic units and stronger trading partners.

A second impediment has been the prevalence of state-dominated economies. American business is finding opportunities in countries in Africa, where economic policies have been liberalized and which have created predictable frameworks for conducting business. These are economies such as Benin in the west, Uganda in the east, and Botswana, South Africa in the south.

In all these nations, two things have happened. Space has been created for private enterprise to flourish, and links have been created to the international economy. These can be magnet economies which, with appropriate public policies, can begin to reverse downward trends in neighboring states.

Now, there are four aspects of the U.S. commercial relationship with Africa that I urge the Subcommittee to take under serious consideration. These are elaborated in my written testimony that has been submitted for the record. Let me itemize them very briefly and expand on one.

The first is that, indeed, there are significant business opportunities in Africa, and I think that needs to be said. It is not to be taken for granted by a public, even a business public, that reads in the paper and sees on television devastation, illness and poverty as the main features of the African landscape. These opportunities are located at the moment very greatly in the infrastructure area that you intend to focus on, and you do not have to talk to too many capital goods exporters, to too many earthmoving equipment exporters, or engineering firms, to find that they have an enormous interest in the kinds of infrastructure projects that are foreseeable in Africa.

Second, these opportunities will be expanded by a U.S. policy which gives priority to trade and investment in Africa, precisely as you are intending to do. But beyond that, a policy that provides a commercial, regulatory and policy framework, as bilateral investment treaties do. But bilateral investment treaties are only the beginning. There needs to be a body of business law, an accounting profession, a legal profession, a context where predictability is available to the businessman who wants to be able to calculate his return over time. It is in everyone's interest that we foster those sorts of environments.

Third, policy should maximize coordination with the private sector. This is a difficult matter which I think Congressman McDermott's proposal will need to take up in a serious way. We are not accustomed to dealing with each other in foreign environments, in fully cooperative fashion. There is suspicion on both sides—and this is especially true in some countries. There is suspicion on the part of the government that business has an agenda that is radically different than that of the State Department, and vice versa. And they are often correct. We need to face up to those different perceptions and resolve them so that we can cooperate.

Finally, I want to comment on the experience of the last 2 years in South Africa that is relevant to the rest of the continent. There's much that is not relevant because South Africa is a very unique place. Its history is uniquely bad. It has a uniquely good infrastructure and it has many of the things that are lacking in other African environments, such as an accounting profession and a body of business law and so forth.

There are a lot of American companies who are entering South Africa, but they are entering in a small way. There has not been a massive influx of investment capital into South Africa. In particular, there are equity funds looking for business opportunities in South Africa, and since equity funds have been raised here, I wanted to say that equity funds in South Africa are encountering a problem that they will not have, to a greater degree, elsewhere in the continent, and that is finding the right partners, the right borrowers, for those funds.

It takes a lot of knowledge of local capital markets. It takes the identification of on-lending institutions. It takes links to small, medium and micro enterprises to effectively carry out an equity fund that contributes to the development of small business, which in Africa, as in the United States, is where most jobs will be created.

Second, the United States private sector and the government, through collaborative mechanisms such as these Committees, needs to cooperate with South Africa in its business move into the rest of the continent. South African companies are exploding into Africa, and they are finding markets. It is their natural market. They are finding lending opportunities, and some of them are doing so with joint ventures with American companies. But it is a trend that needs to be encouraged.

Finally, I want to call to your attention the absence of a bilateral tax treaty with South Africa. If South Africa is, as the rhetoric claims it to be, the springboard for development of the rest of the continent, we need a bilateral tax treaty. Negotiations have begun, but they have not been concluded. It is an important missing link in this chain, and I would like to take this opportunity to urge the conclusion of the negotiations of it and the speedy ratification of it by the Congress.

Mr. Chairman, thank you very much for the opportunity to appear.

[The prepared statement follows:]

TESTIMONY OF DANIEL O'FLAHERTY

EXECUTIVE DIRECTOR OF THE

U.S.-SOUTH AFRICA BUSINESS COUNCIL

AND

VICE PRESIDENT OF THE

NATIONAL FOREIGN TRADE COUNCIL

BEFORE THE

COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

AUGUST 1, 1996

Mr. Chairman, Members of the Subcommittee on Trade, I am Daniel O'Flaherty, Executive Director of the U.S.-South Africa Business Council, an association of 65 U.S. companies engaged in trade and investment in South Africa. I also serve as Vice President of the National Foreign Trade Council, which sponsors the Business Council, and which represents more than 500 U.S. companies which are active internationally. I am very pleased to testify this afternoon on the subject of U.S. trade with Sub-Saharan Africa.

These hearings take place at a time of deep pessimism in some quarters about the prospects for economic growth, political stability and the development of civil societies on the continent of Africa. Events in Rwanda, Burundi, Somalia, Sudan, Liberia, Nigeria and elsewhere have fed a perception that Africa is fated to continue its decline into poverty and turmoil. In this view it follows that Africa's economic importance to the U.S. and the developed economies is limited to being a source of raw materials and that hopes for free market economies to take root in Africa are destined to be disappointed.

I strongly dissent from this view. I dissent because I do not accept the notion that the fate of the more than 600 million people on the African continent can be separated from our own. I am further convinced that increased commerce between the U.S. and Africa will benefit both. Finally, I believe that the pessimistic view is simply factually wrong. The experience of the U.S.-South Africa Business Council and of the National Foreign Trade Council has been that there are significant commercial opportunities in Africa which will expand as the African markets grow.

We are convinced that the expansion of U.S. trade with and investment in Africa is the single greatest contribution this country can make to the continent's economic and political development. Official development assistance has an important supporting role to play. We would therefore endorse measures to increase the capacity of the U.S. Agency for International Development to support and cooperate with U.S. corporations operating in Africa. Above all, however, there needs to be close coordination of U.S. government initiatives with private sector activity. The U.S.-South Africa Business Development Committee, which met in Washington last week, is an example of governments and private sectors collaborating to overcome impediments to greater commerce. One such impediment is the small scale of many African economies. The U.S. should encourage closer regional cooperation centered on magnet economies to create larger markets which will be stronger trading partners and more attractive investment destinations.

American business is finding profitable opportunities in economies on the continent where economic policies have been liberalized and where predictable frameworks for conducting business have emerged. These are economies such as Benin in the West, Uganda in the East, and

Botswana and South Africa in the South. In all these nations, two things have happened: space has been created for private enterprise to flourish and links have been created to the international economy. These can be magnet economies which, with appropriate public policies, can begin to reverse downward trends in neighboring states.

There are four aspects of the U.S. commercial relationship which I urge the subcommittee to take under serious consideration:

(1) There are significant opportunities in Africa for U.S. business;

(2) Those opportunities will be expanded by a U.S. policy which gives priority to trade and investment with Africa;

(3) That policy should maximize coordination and cooperation with the U.S. private sector;

(4) There are important lessons to be learned from the experience of U.S. business in South Africa since the end of apartheid.

I would like to elaborate briefly on these four basic points.

1. <u>There are significant opportunities in Africa for U.S. business</u>.

Trade between the U.S. and Africa grew rapidly during the past year. Two-way trade with Africa grew 12% last year and U.S. exports to Africa increased by 22.7%. This level of exports is nearly as much as the U.S. sold to the former Soviet Union and Eastern Europe combined. At the same time the U.S. is Africa's leading foreign market, purchasing over 18% of the continent's exports. Indeed, the U.S. exports as much to South Africa alone as it does to Russia. U.S. direct investment in South Africa exceeds that in Russia and is roughly equivalent to that in India or Turkey.

There are several sectors where the prospects for expansion of U.S. markets are especially bright:

U.S. companies have much to offer in infrastructure development in countries which are rebuilding or expanding their transportation facilities and upgrading the adequacy of facilities, such as housing, which are available to their citizens. One example is the Maputo Corridor project linking the South African urban center of Gauteng (Johannesburg, Pretoria, Witwatersrand) to the Mozambique capital Maputo on the Indian Ocean 270 miles to the east. This is a $240 million project to upgrade the rail and road link, financed by only 10% government money, with the remainder being raised on private financial markets. The project is one of the most ambitious cross-border projects ever undertaken on the continent with important benefits both to South Africa and Mozambique. Significantly, as President Mandela has said, "private sector participation is essential to the success of the project."

The global revolution in telecommunications is having a major impact on Africa. This obviously facilitates business, but it also provides major opportunities for U.S. telecommunications companies to market equipment and services. In a continent, the vast majority of whose citizens have never made or received a telephone call, the arrival of digitalized telecommunications is having a revolutionary impact. This is especially true because countries can leapfrog older technologies and reap the immediate benefits of the latest advances. Clearly expansion electrification is a prerequisite to widespread use of many technologies. Public-private partnerships (and privatization of electrical utilities) can accelerate expanded access to electrical power.

2. <u>These opportunities will be expanded by a U.S. policy which gives priority to trade with and investment in Africa</u>.

The U.S.-South Africa Business Council supports the concept of legislation establishing trade and investment as a U.S. policy priority. This will send important signals about our relations with the continent. Perhaps the most important is to signal that the U.S. government understands that its relationship with Africa is based on mutual benefit and self-interest and not on foreign assistance, for which resources are in any case diminishing. This is not to denigrate the importance of official development and humanitarian assistance. It would, however, be a confirmation that the future of the relationship lies in being trading partners, operating under internationally recognized trade and investment regimes.

The weakened condition of many African economies argues strongly for reauthorization by this Congress of the Generalized System of Preferences and for an adequately funded Trade and Development Agency. It is also strongly in the U.S. national interest to help African countries which are not members of the World Trade Organization to adjust their laws and practices in anticipation of WTO accession. Likewise, efforts to strengthen the development of commercial law, the upgrading of customs services and a broadened understanding of accepted business practice are all areas in which public-private partnerships can strengthen and expand existing free market economies.

We believe that it would be especially useful to inaugurate regular ministerial level meetings between the U.S. and African nations. Similar fora have played a useful role in other regions of the world and have the potential of strengthening governments committed to free market democracy and exercising influence on others.

U.S. government support for regional trade agreements in Africa can help individual countries overcome the liabilities of small domestic markets, making them more attractive to foreign investors. The Southern African Development Community (SADC) has the potential to move in this direction, but official U.S. encouragement and support will help them to overcome the difficulties inherent in breaking down economic barriers.

(3) U.S. policy should maximize cooperation with the private sector.

Any legislation enacted by Congress on trade with Africa should mandate extensive collaboration with the business organizations whose commitment to Africa is needed for the policy to succeed. All too often U.S. government programs in Africa do not put a priority on coordinating or supporting a U.S. business presence. That is sometimes true despite a rhetorical acknowledgment that private investment and business activity are central to achieving explicit U.S. policy goals.

For the U.S. business community the advocacy by the U.S. government of policies which facilitate trade and investment is perhaps the most important official role in countries where there is a significant American business presence. A clearly defined policy that trade and investment are the main focus of U.S. engagement with Africa will make it clear to the governments of Africa that we do not seek their long-term dependence on foreign assistance. It will also signal that the success of their economic relationship with the U.S., as well as with the rest of the world, will depend on their adherence to internationally accepted practices in areas such as subsidies, protection of intellectual property, illicit payments and dispute settlement.

(4) There are important lessons to be learned from the experience of U.S. business in South Africa since the end of apartheid.

An important U.S. public-private partnership has been established to facilitate the re-engagement of the U.S. and South African economies following the repeal of sanctions legislation. In June of 1994 Commerce Secretary Brown established a U.S.-South Africa Business Development Committee which includes private sector participants from both countries. This committee held its third plenary session on July 22 and 23 in the context of the U.S.-South Africa Binational Commission which Vice President Gore and South African Deputy President Mbeki co-chair. This has provided a high-level forum in which obstacles to increased trade and investment are identified and brought to the attention of the highest level of political leadership. It has also promoted contact between the business leadership of the two countries, thereby deepening relationships and understanding. Similar committees can be useful where an adequate private sector base exists to support them and where the private sectors in African countries can be energized by structured, regular contact.

U.S. exports to South Africa have grown far more rapidly than has direct investment in manufacturing. There are many reasons for this, but one of the most important is that most U.S. companies view South Africa as a relatively small market. They choose initially to export to the market to be able to assess the likely returns on a direct investment for local production. This is a pattern which may well recur elsewhere on the continent, resulting in U.S. merchandise trade deficits for the medium term. Resulting current account deficits may require access to borrowing facilities at the IMF on concessional terms until capital inflows adjust.

U.S. companies in South Africa are adapting well to operating in the less developed sector of the economy and innovating new mechanisms to support and involve small business and promote entrepreneurship. These are techniques which have broad application elsewhere and will enable U.S. companies to have a multiplier effect on employment.

The U.S-South Africa Business Council was established by American companies aware of the need for a private sector organization which would provide information about the country and its market and link them to the public and private institutions emerging in the new South Africa . Although our focus is exclusively on South Africa, many of our member companies specifically choose to locate in South Africa to conduct their business operations on the African continent from there. The linkages between South Africa's economy and those of its neighbors and the role of U.S. business in that process will grow very rapidly in the next several years. We are, therefore, especially pleased that the subcommittee has held hearings on this important subject and appreciate the opportunity to testify.

Chairman CRANE. Thank you, gentlemen, for your testimony.
Mr. McDermott.
Mr. MCDERMOTT. Thank you, Mr. Chairman.
I just have one question I would like to direct at the panel, and I am sorry that Mr. Ofori-Atta is not here. He raised the issue of $6 billion worth of earthmoving equipment bought by a mining company in Ghana, and a company owned 35 percent by Americans invested through the stock market, but none of the equipment bought from us. You may not know the specifics of that particular situation, but I am sure there are other situations where you can give us a feeling in concrete terms about what happens when people try to get involved at that level.
I would like to have examples so that the Subcommittee will have in the record the kinds of things that we are really trying to deal with, what actually happens to American companies when they try to get involved in these kinds of deals. So, if you have some response to that particular Ghanaian example, or some other example you may be more familiar with.
Mr. SAMUELS. Mr. McDermott. I do not have the examples from that particular Ghanaian experience but let me give you some of the aspects of the marketplace that I think are relevant.
Number one, several of the other industrialized countries masquerade as development assistance or as aid financing programs for the provision or sale of heavy equipment, or vehicles, or other kinds of things that we would never consider part of our aid program. That often leads to the development of supplier networks and the development of repair facilities that create patterns that make it difficult for Africans to view U.S. products as their first choice.
Second, it is not unusual for even American companies to view Africa in a European context themselves. A number of U.S. companies have their African vice president located in Europe, so their African agents would look to Europe for any kind of activity. That just worsens the kind of postcolonial networks that naturally exist.
Third, the Lome Agreement is one that may or may not help Africa, but clearly has buttressed the European-African connection of suppliers.
Fourth, it is not unusual to find that for large-scale projects the feasibility studies or pre-feasibility studies are done by European firms, oftentimes with their own government's financing. That often leads to standards that do not match with U.S. capabilities. And that is not just World Bank activities, but it is a variety of even private sector ones, because it is more likely to find European engineering, construction firms, and the like.
These are all aspects of the picture that need to be looked at in order to come to grips with the problems you're talking about.
I guess the final point, one that has been touched on both by your own legislation and by some of the testimony, is that Ex-Im's coverage is sufficiently poor that people buying large-scale equipment that needs export financing are likely to go to countries where their governments do a better job than ours does.
Mr. MCDERMOTT. Mr. Sachs or Mr. O'Flaherty, do either of you have comments on that?
Mr. SACHS. That is a rather an exhaustive list.

There is one more item, and a delicate one, that ought to be mentioned, which is, as everybody is painfully aware in international trade, in the United States, quite properly, bribery of foreign officials is against the law, and in Europe it remains a tax deduction. This is an issue which has shown in recent research, actually carried out at the Kennedy School of Government at Harvard, to have affected the direction of trade and foreign investments adversely for the United States.

The solution clearly is not to liberalize bribery but, rather, to get the Europeans finally to behave according to some decency and legal standards that befit the modern world. we are working on that with the OECD, but it hasn't happened yet.

Mr. MCDERMOTT. Is that actually an agenda item in the OECD?

Mr. SACHS. It is an agenda item. It has not progressed to a solution yet. In my view, it is a very important agenda item.

We preach a lot about governance in many forms these days, but it is our own practices that are often really the source of problems. In this case in Europe, it is no secret. You find it on the tax deduction lines as normal business expenses, these kinds of payments.

Mr. MCDERMOTT. Mr. O'Flaherty.

Mr. O'FLAHERTY. I have nothing to add to that.

Mr. MCDERMOTT. I guess my other question is, if each of you had one thing that you would change in the Congress—I mean, we are going to be working on this legislation—what is the thing that you see is the most central? I suspect from Mr. Sachs that you would say debt reduction, but I am not sure what the other two of you—or maybe I misperceived Mr. Sachs. But what would you say is the most important issue that the Congress can, in fact, deal with? I mean, there are a lot of things we would like to change in the world, but they are not subject to legislation.

Mr. O'FLAHERTY. I would like to agree with my colleagues' previous comments, that to establish as national policy a priority on growth in Africa and on pursuing a range of policies that reflect that priority. One of the most important things is the starting point for a positive approach, and then much flows from that.

Mr. SAMUELS. That is really a very difficult question, Mr. McDermott. But if I were to choose one thing, it would be to make sure that the traditional supporters of African matters in the Congress, who are, in my view, overly tied with viewing Africa in an AID context, grow in their understanding of the Africa of today and tomorrow to understand the kinds of issues that you and Mr. Crane and your staffs have been wrestling with in recent months, so that rather than through their "gut" opposing your efforts to come up with good initiatives, they learn to support and, in fact, supplement what you are doing.

Mr. SACHS. I, too, would like to reemphasize the growth agenda as the guidepost. Growth quickly transforms itself to the imperative of export growth. We could sell all the infrastructure in the world, but they will not be able to pay for it unless they have export growth on a sustained basis, for a long period of time. That also means not just primary commodities but manufacturers. That suggests several important features, which you have identified, market access being absolutely crucial. The involvement of a range of foreign investment, bilateral treaties, double taxation treaties, OPIC, Ex-Im Bank, all fit into a framework of promoting their export growth, our market growth in Africa as well, and therefore their long-term growth.

Again, as you rightly characterize my view, my strong perception is that the debt reduction is not only imperative but extremely highly salient in the minds of senior policy makers throughout Africa, and therefore a lever for profound change, something where we could have a great impact on making it a deep change in the policy environment, in the business environment and so forth, by being very forthcoming, direct, and doing what's necessary on that agenda.

Finally, let me say a word about AID. I think there is an ironic aspect to USAID's involvement right now. It is a perception, that one of the things that is being cut back at AID is the very kind of economic advising on market liberalization, creation of export incentives and so forth, which is needed.

If the humanitarian agenda, so called, completely crowds out the business agenda, we are clearly going to be making a mistake. It is not that AID cannot do it; it is a question of what kinds of priorities USAID is going to put in its own programs right now.

My sense is that economic policy, at this macro-economic and trade level, is being squeezed right now, and that would be a very ironic truth, if it is a truth. It is a perception on my part, and it is what one hears and sees. It would be the wrong thing to do right now.

AID has a hugely important role to play, it seems to me, on helping with the development of this export and growth agenda and liberalization agenda. They know how to do it. They've given some of the best advice in the world over the past 30 years on how to liberalize an economy, how to get growth going.

USAID, it is important to remember, was the main advisers on getting the booms going in East Asia in the late fifties and early sixties. This is a historic accomplishment and a wonderful record, and they could do the same thing here. But, it is a question of where they put the priorities. We have to make sure that USAID puts the priorities also on economic growth. That is crucial.

Mr. McDERMOTT. What do you estimate the figure to be for debt reduction? You said there would have to be some contribution by the United States, not dollar for dollar but some contribution. What are you talking about in terms of numbers?

Mr. SACHS. It is probably not large, and I could give you for the record something better than a guess, so I would hazard to give you a number.

It is a few percent, of course, depending on how you score it. It may be 10 or 20 percent of the face value of debt, because we have rules under the credit control agreements of how we score debt write downs, and fortunately, it isn't dollar for dollar. But it does count in the budget. So, we have to make sure we have room for that. This is also part of the broader international agenda right now, of getting the multilateral debt down and so forth.

I know from my experience in advising many parts of the world that this item consumes the time and the passions of senior policymakers and heads of government, because what they are looking for, when they finally come to reform, which takes time—but right now we are there—when they finally come to what they are looking for, it is not a handout but a fresh start. That is the key. They are looking for the opportunity to overcome the past, and that means a fresh start.

That is why it is so salient in their minds: How can we make the clean start, how can we show that we have an environment that is business friendly if we are carrying this enormous burden and being pulled through the muck of debt servicing for a generation? It is not enough to postpone because the overhang remains there. What they really feel passionately is the need to let us start growing, give us the chance. We made mistakes, everybody made mistakes. Let us have a fresh start.

It is an absolutely compelling instrument of policy and politics for these leaders. We have seen it from Poland to Bolivia, and many other countries.

Mr. McDermott. I would appreciate it if you would take the time to give the specifics of that so that we could put it in the record. I think it would be useful for us to look at what that element really is, in terms of what we are actually talking about.

Mr. Sachs. I would be delighted to get that to you.

[The information was not available at the time of printing.]

Mr. McDermott. Thank you, Mr. Chairman.

Chairman Crane. I want to thank all of you gentlemen for your testimony, and look forward to working with you and soliciting ongoing input in this connection.

With that, the Subcommittee will stand in recess until 2 p.m.

[Whereupon, at 1:20 p.m., the Subcommittee recessed, to reconvene at 2 p.m. the same day.]

Chairman Crane. The Subcommittee will reconvene.

We are honored to have Secretary George Moose from the African Affairs Bureau at the State Department with us.

You may proceed.

Excuse me. Let me defer first to our distinguished Ranking Minority Member.

Mr. Rangel. I had an opportunity to talk with the Ambassador yesterday about some of the problems that we are facing in trying to improve the trade relationship with Africa, and he is aware of it. So I am more than pleased, because of his rank, his experience, and his reputation, that he is with us today. I think he can help us and advise us as to what we can do to be helpful in removing some of these impediments.

Thank you, Mr. Chairman.

STATEMENT OF GEORGE E. MOOSE, ASSISTANT SECRETARY OF STATE FOR AFRICAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Moose. Thank you very much, Mr. Chairman, and Members of the Subcommittee. I am, indeed, pleased to be here this afternoon to testify on the subject of the economic situation in Africa.

I have, Mr. Chairman, prepared a longer written testimony, which I would request be submitted as part of the record.

First let me say that I applaud and endorse the strong emphasis that you and Congressman McDermott and other Members of the Subcommittee have placed on the role of trade and investment, and on the private sector as the engine of growth for Africa. You and the members of the African Trade and Investment Caucus have stimulated what I believe is an important debate, one which should now command the attention of all who are concerned about Africa's future economic growth and development, as well as about the opportunities that Africa's growth can create for American producers, exporters, and consumers.

While we may take exception to some specific aspects of the current proposals, we strongly support the central thesis that: More needs to be done to stimulate the role of the private sector in Africa, and to promote Africa's integration into the global marketplace.

One cannot deny that Africa continues to face many daunting challenges. Too many African countries still struggle with civil strife, with high population growth rates, with large debt burdens, and with minimal investment flows.

But, as I can attest from my many travels across the continent over the last 3 years, there are many positive signs. Africa is, in my judgment, undergoing a major transformation. The clearest indicator of that transformation is the expansion of democratic governments and democratic institutions across the continent. That expansion is paralleled by significant economic reforms and economic liberalization.

Apart from the handful of countries that are indeed experiencing civil unrest, most of the region is achieving measurable progress toward sustainable economic growth through more efficient use of resources. After 4 years of decline or stagnation, Africa last year experienced the first increase in per capita GDP since 1989, and that growth was also widespread, exceeding three percent in nearly 30 countries. These positive signs, indeed, offer hope for the future.

While this upswing is partly the result of higher commodity prices, it also reflects the positive impact of better economic policies, the political transition in South Africa, greater economic peace in many parts of the continent—all of which should contribute to economic growth that is more sustainable in the future. These gains would not have been possible without a continuing commitment on the part of African governments to economic and political reform.

This progress, however, remains fragile. The question I think we face is how can we strengthen and sustain it. One answer is clear. It is crucial for Africa to have a vibrant, growing private sector in order to improve economic growth and living standards. But, it is also critically important that we not lose sight of the lessons we have learned from our many years of deep involvement in Africa's economic, social, and political development.

During the past three decades, the international donor community has experimented with many approaches to development in Africa. These experiences, I believe, have taught us a lot about what does and does not work, and what we must continue to do in order to sustain the real progress that has already been achieved.

First, it is essential that we continue to support the process of economic reform and liberalization in Africa. Absent a clear commitment to market reform, all other efforts to stimulate production and growth will be doomed to failure. The statistics show clearly that economic growth rates have improved most dramatically in those countries such as Ghana and Uganda, that have made the strongest commitment to economic reform. Our support for economic restructuring and reform through both our bilateral assistance programs and our contributions to the programs of the international financial institutions has been critical to that reform effort.

Second, we must continue our support for democracy and good governance. Ultimately, it is the strength of democratic institutions and processes that assures the fairness and the transparency that the private sector requires for its success. It is no mere coincidence that the improvement in Africa's economic performance is occurring at a time when Africans are working to create a better enabling environment by removing constraints to political and economic freedom, and encouraging greater accountability, transparency, and predictability. Here again, our bilateral programs to support democracy and good governance are contributory.

Third, we need to continue our efforts to help resolve conflicts on the African continent, and to strengthen the capacities of African organizations and institutions to anticipate, prevent, and manage crises, whether natural or manmade. It is clear that the promise of greater economic growth and prosperity cannot be realized if existing conflicts within the region are not peacefully resolved and future conflicts prevented. Liberia and Burundi are examples of conflicts that threaten to undermine the efforts and the investments that neighboring countries have been making in their development future.

Here again, American diplomacy has played an important role, as is reflected in the significant progress that is being achieved in resolving the conflict in Angola, one of Africa's longest standing conflicts and one of its most destructive. It is critically important, however, that we also support our diplomacy with the needed resources. The investment we have been making in building the peacemaking and peacekeeping capacities of the Organization of African Unity and other regional organizations will pay enormous dividends by helping to avert and contain human disasters and political instability in the future.

Fourth, we must, recognize the important contribution our assistance has made to the development of Africa's human potential. Improving the quality of Africa's human resources, the health, education and skills of its people, is critical to Africa's hopes for being more productive and more competitive in the international marketplace.

The programs implemented by AID, the Peace Corps and other agencies, in the areas of AIDS research, for example, and involving women more deeply in the development process, are a part of the essential effort to strengthen Africa's human capacities.

There is, however, Mr. Chairman, another critically important lesson that we have learned from our experience in development in Africa and elsewhere. Foreign assistance alone cannot be the basis of sustainable economic growth and development. Foreign aid from the United States and other donors cannot begin to finance the accelerated rates of economic growth that the continent needs and, indeed, is capable of achieving. That capital and that initiative must come from the private sectors, both from within Africa and from abroad.

That is why we believe the ideas that have emerged from the deliberations of the African Trade and Investment Caucus are both important and timely. The political and economic reforms that have occurred over the past decade have laid the foundation for a more active and effective participation of Africa in the private sector. These reform efforts must now be rewarded by allowing African producers and entrepreneurs greater access to international markets and sources of finance.

This is an area where I believe the views of the administration and those of the Congress are already beginning to converge. I had the great pleasure and privilege of accompanying our late Secretary of Commerce, Ron Brown, on his historic visit to Africa in February. From that visit, a number of ideas emerged about how we could stimulate greater involvement of American businesses in Africa, to the mutual benefit of both Africa and America.

Upon his return from that trip, Secretary Brown convened a meeting of the Trade Policy Coordinating Committee, at which he laid out a number of proposals aimed at removing the barriers to more effective and productive trade relations between America and Africa. It has been gratifying to see how many of these ideas are also embodied in proposals that have emerged from this Subcommittee. But, I also want to acknowledge our debt to Congressman McDermott. His amendment to the 1994 trade bill provided a needed emphasis and focus to our efforts to develop a more comprehensive trade and investment strategy for Africa.

I believe President Clinton's first report to Congress last February on his trade and development policy for Africa is an important beginning. It contained over 60 specific initiatives being undertaken to increase trade and investment in Africa. We look forward to working with you, with members of the Caucus and other Members of the Subcommittee, in refining these initiatives and in developing new ones that will respond to the challenge and the opportunity that we face in encouraging Africa's continued economic growth and development.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Testimony of George E. Moose
Assistant Secretary of State For African Affairs

House Ways and Means Committee
Subcommittee on Trade
August 1, 1996

Dear Mr. Chairman and Members of the Committee,

I am pleased to have been invited to testify today on the economic situation in Sub-Saharan Africa.

We appreciate the emphasis that you and Congressman McDermott have placed on the role of trade and investment and on the private sector as the engine of growth. You and other members of the African Trade and Investment Caucus have stimulated an important debate which will command our attention for some time. While we may take exception to some aspects of your proposals, we support the central thesis: more needs to be done to promote greater private investment and economic integration in Africa.

Africa and Global Economic Integration

The President, in his February 1996 report "National Security Strategy of Engagement and Enlargement", stated that the strength of our diplomacy, our ability to maintain an unrivaled military, the attractiveness of our values abroad -- all depend in part on the strength of the American economy. Through its own initiatives, and building on those starting in earlier administrations, the Clinton Administration has had considerable success in engaging the United States economically abroad and opening foreign markets through enactment of legislation implementing both the North American Free Trade Agreement (NAFTA), the successful conclusion of the Uruguay Round and start-up of the World Trade Organization (WTO); active leadership in the Asian Pacific Economic Cooperation (APEC) forum; hosting a Western Hemisphere summit in Miami where 34 nations of this hemisphere committed themselves to negotiate a free trade agreement by 2005; and efforts to promote a US-EU Transatlantic Marketplace and advance an OECD Multilateral Investment Agreement (MIA). Bilaterally, the Administration concluded a Framework Agreement covering our economic relations with Japan, market access and intellectual property Memoranda of Understanding with China, and many other accords with major trading partners. Our trade agenda has been ambitious, proactive, and successful.

Yet, what about Africa?

Daunting Problems

Africa is undergoing a major transformation. The clearest indicators of this transformation are the growth and expansion of democratic governments paralleled by significant economic reforms and liberalization. Africa's problems, however, remain daunting. Africa is the only region of the world where poverty is expected to increase during coming years. Too many African countries still struggle with civil strife, high population growth rates, an impoverished human resource base, large debt burdens, and minimal investment flows. Thirty five of Sub-Saharan Africa's 48 countries are still classified as low income, with a per capita GNP of $700 or less in 1994. Twenty eight countries are classified by the World Bank as severely indebted. Much of Africa is not fully integrated into the global economy; about one-third of the region's countries are not yet members of the World Trade Organization.

Signs of Renewed Growth

There are, however, many positive signs. Apart from a handful of countries experiencing civil unrest, most countries in the region are achieving at least a degree of progress toward sustained economic growth through more efficient use of resources. These positive signs offer hope about the future of Africa.

After four years of decline or stagnation, average real GDP growth in the region increased to 3.8 percent last year, the highest rate so far in the 1990s. That was also the first increase on a per capita basis (1.1 percent) since 1989. Growth also appears to be more widespread, exceeding 3 percent in nearly 30 countries. A number of reforming countries have recorded growth rates exceeding four percent. Botswana, Ghana, and Mauritius among others have been good performers.

While this in part is the result of higher commodity prices, which may be transitory, it also reflects the positive impact of more effective development programs, better economic policies, political transition in South Africa and other emerging democracies, and greater civil peace in some areas, all of which should make economic growth more sustainable. These gains would not have been possible without a firm commitment to economic and political reforms. While recent results are heartening, the progress is fragile and economic reform must be continued and deepened if it is to be sustained.

Differences in Performance

There are significant differences in performance among the countries in the region, and, for most of them, higher rates of growth are needed to bring about significant poverty reduction. In South Africa, the region's largest economy, growth improved for the second consecutive year to 3.4 percent in 1995. Even faster growth is needed to reduce high levels of unemployment among the black majority and improve delivery of public services to them. This will require action to improve labor market flexibility and to reduce concentration of ownership in industry. Just last month South African Finance Minister Trevor Manuel presented an economic blueprint of strategies to promote export growth, create a stable environment for investment, encourage privatization, reduce government spending, develop human resources, encourage industrial development, and modulate wage demands.

The outlook in Nigeria, the second largest economy, is much more troubling. In 1996 per capita income there fell to approximately $260, the same level as 1972 before the oil boom or less than one fourth the 1981 level. The domestic political situation is volatile, with growing international pressure on the military regime. Within the last few months we have seen halting attempts at economic reform, such as the introduction of a market-based exchange rate for private sector transactions, reduction of import tariff rates, removal of restrictions on foreign direct and portfolio investment, and increasing budgetary transparency. Efforts to revive privatization have begun with focus on telecommunications, power, and the petroleum-related sector. However, Nigeria needs to build a credible track record to generate international support for its reform program. There is still much to be done, but Nigeria has recently reengaged a technical-level dialogue with the World Bank to discuss a plan to implement reform policies.

The CFA franc zone countries in West and Central Africa, which realigned their currencies in 1994, have contributed to the higher African growth rate. Exports generally responded well to the boost in competitiveness and there are signs of an increased intra-CFA trade, primarily through increased imports of coastal countries from inland. In East Africa, implementation of structural adjustment policies and high commodity prices boosted growth in Kenya, Tanzania, and Uganda. Some of these countries are in a position to make significant progress in exchange rate and trade policy reform.

Special Program of Assistance

Economic performance in some thirty African countries has been boosted by the World Bank-coordinated Special Program of Assistance (SPA), launched in December 1987. The SPA brought together the World Bank, the IMF, the African Development Bank, and bilateral donors in an effort to mobilize fast-disbursing assistance and provide debt relief for countries adopting programs of stabilization and structural reform.

The most notable progress has been in liberalizing trade and foreign exchange regimes, and in most countries there also has been solid progress in reforming domestic markets. Several countries have undertaken parastatal reform and privatization, albeit much less rapidly and less completely than needed. Domestic resource mobilization remains a problem in most countries. About half the SPA countries have made clear improvements in expenditure management, but stronger financial management remains important for all. More priority needs to be given to health, education, agriculture and basic infrastructure. Public sector resource problems are complicated by low savings rates in nearly all parts of the continent.

The UN Special Initiative on Africa has identified debt relief as crucial to sustainable economic growth for Africa. The recent meeting of G-7 leaders reaffirmed the importance of supporting economic reform by urging action on multilateral debt and by supporting continued financing of an Enhanced Structural Adjustment Facility (ESAF). The United States has already provided extensive debt relief for Africa's poorest countries. In the early 1990's, we forgave over $1.1 billion in concessional debt for 19 of the poorest African countries implementing reforms. In addition, beginning in 1994 the United States joined other Paris Club governments in offering to reduce non-concessional debt owed by the poorest, reforming countries. Finally, the United States has worked closely with the World Bank and the IMF to address the issue of multilateral debt.

A Significant Trading Partner

The United States has an important economic stake in Africa's success. As other panelists discuss in more detail, two-way trade between the United States and Africa last year reached a new high, $18 billion, 11 percent greater than in 1994. The United States exports to Africa increased 23 percent above the 1994 level, to $5.4 billion. Already, the African market is nearly as large as those of the Newly Independent States, including Russia, of the former Soviet Union. During 1995 the United States imported $12.6 billion from Africa, mainly oil, a 12 percent increase from 1994.

Disappointing Investment Response

A vibrant, growing private sector is crucial for improving economic growth and living standards. Unfortunately, the investment response -- both domestic and foreign -- to reform measures in Africa has been disappointing. During the early 1990's, investment flows into Africa stagnated while those to other developing regions, notably Asia and Latin America, increased. Africa's share of foreign investment flows declined from 8.9 percent in 1981 to only 2.9 percent by 1994, according to an International Finance Corporation study. Moreover, 70 percent of investment flows into Africa in the early 1990's were concentrated in oil-exporting countries, mainly Nigeria. Weak financial sectors, poor infrastructure, a relatively unskilled workforce, macroeconómic instability and unpredictable legal and regulatory systems have contributed to this result. Consequently, export growth in Africa has lagged the growth of world trade and African exports remain highly concentrated in primary commodities.

During his six trips to Africa, the late Secretary of Commerce Ron Brown worked tirelessly to promote trade and investment with Africa and the growth of the African private sector, an approach to which Congressmen McDermott and Crane have brought increased attention. Secretary Brown was a most effective spokesman, who brought Africa to the attention of U.S. business and increased the interest of potential African business partners in dealing with the United States. As Secretary Brown often pointed out, if the risks of doing business in Africa are higher than in many other places, the rewards, in the form of average rates of return on book value of 25 percent, are among the highest in the world.

U.S. Policy Actions

President Clinton's first report to Congress last February on his Trade and Development Policy for Africa contained over 60 specific initiatives being undertaken to increase trade and investment in Africa. We expect subsequent reports to refine existing initiatives and to develop new ones.

From 1990 to 1994 the United States provided $13.6 billion - an average of $2.7 billion per year - of assistance to Africa, directly though USAID (including the PL 480 food assistance program), and indirectly through the World Bank and other international institutions. These assistance programs have played an important role in promoting trade and development. And they must be continued. Ghana is an example of how U.S. support, including USAID's Trade and Investment Program has yielded impressive results. Non-traditional exports increased significantly, including manufactured Afrocentric items for the U.S. market. At the same time, our exports to Ghana have increased.

USIA also plays a role in developing trade with Africa through a variety of programs which encourage the political, social, and economic climates necessary for increased trade and investment. This year, 270 African entrepreneurs will visit the United States as part of USIA's exchange and visitor programs. Young African entrepreneurs and business people will intern in American companies in the United States while U.S. lecturers and researchers will teach and work in Africa, explaining the advantages of free-market economics. USIA programs in Ghana and Nigeria help develop business associations there.

During the past three decades there have been a number of approaches to development. The conclusion to be drawn from this experience is that development needs balance; the development stool has several legs. There are several things that donors are doing well. We need to retain support for macroeconomic reform -- that is the base for the rest. We also must continue capacity building and human resource development, with particular attention to the education of women. If we forget these basics, we are in trouble.

There are other things that have not been done as well, that need to be improved.

- There should be a stronger focus on the role of trade and investment and on strengthening of the African private sector as the engine of growth.

- We encourage increased regional economic integration in Africa in order to achieve economies of scale necessary to attract investment. There has been much talk of the importance of this, but progress has been more limited .

- We need better ways to coordinate and collaborate among donors. There have been improvements, but more must be done to use declining resources to the best effect.

To ensure continued progress, African governments and international donors must use all resources efficiently. In this era of declining donor resources, wise stewardship of available funds is a top priority. Realistically, we cannot expect an increase in overall donor resources, including from the United States. However, the United States is committed to working with African governments and other donors to direct our resources where they can make the most difference.

Nevertheless, foreign aid from the U.S. and other donors could not begin to finance rapid economic growth on the continent. Most of the capital needed to finance rapid growth must come from the private sectors, both from within Africa and from abroad, including flight capital. Continued program lending to support economic reforms remains important. However, where economic reform has produced the necessary stability in external accounts and fiscal balances, scarce development dollars can be directed to highest development priorities.

The United States and other western donors have been impressed with the resolve that African governments demonstrated in supporting reform of the African Development Bank. The strong support that the regional members have given to the new bank president's reform program is more recognition that shrinking assistance must be used wisely.

<u>Enabling Environment</u>

The UN Special Initiative states that "donor-led development is not a credible option". We concur. Increasing and sustaining the rate of growth enough to reduce poverty requires African ownership of the development program. This must be widespread. Governments must strive to muster support from groups benefitting from reforms.

African leaders now must shoulder the responsibility of furthering economic liberalization, developing enduring institutions, mobilizing domestic resources, forging dynamic partnerships with the private sector, protecting the environment, and promoting regional alliances. African leaders have largely abandoned the practice of blaming others for their troubles; instead, to a remarkable degree, they have become brutally honest in examining their policy shortcomings. In our bilateral assistance, we are talking more and more with the "stakeholders" and are pleased with their increasing focus on African ownership of the development process.

The task for African governments is to create an enabling environment for private sector growth by removing constraints to political and economic freedom and encouraging greater individual participation. Investors expect good governance. This means: 1) decentralized political activity, 2) accountable and responsible government, and, 3) respect for human rights, including a free press that permits a free and open exchange of ideas. Investors also expect access to a transparent, predictable legal system to enforce contracts and resolve disputes.

USIA's programming in support of free media, civic education and democratic institutions are helping establish the political and social underpinnings for economic reform and growth. This work includes programs in Burkina Faso, Malawi, Mali, Niger, Senegal, Tanzania, Zambia and Zimbabwe aimed at helping private radio and television stations there become financially viable, and journalism training programs which promote competitive, independent media and reduced ethnic tensions.

USAID is also working with many of these governments to help them in the process of creating an enabling environment more conducive to economic growth; however, its capacity to deepen and broaden these programs is limited by the fact that USAID's overall budget is constrained.

Greater Economic Integration Needed

Rapid globalization of trade and finance, reinforced by information technology and telecommunications advances is transforming the world economy. The danger is that Africa may end up on the outside looking in. While the marginalization of Africa in international markets is a real concern, this can be and must be reversed. African nations must acknowledge that their nations must aggressively compete, and not retreat, as integration into the international economy is a necessary condition for rapid economic development.

Regional integration can be a stepping stone to the global economy, but trade within the region has been limited, by historic trade and production patterns, restrictive trade practices, and inadequate transportation links. Enhanced regional cooperation can be an important step to better integration into the global economy. There are some nascent and encouraging moves in this direction. The United States is working closely with Southern African Development Community (SADC) countries as they move toward a closer economic partnership. The revival of the East African Community and the reformation of the West African Monetary Union into an economic and monetary union are other encouraging regional developments.

The Way Forward

Our development assistance cannot solve every problem. It is no substitute for good government and cannot make up for failed economic policies, but it can make a decisive difference in promoting opportunities for prosperity, democracy, and stability around the world. We have learned many lessons about what works and what does not, and we are generally applying them well.

Our assistance to Africa must be maintained, especially when so many African countries, from Mozambique to Sierra Leone, are making quiet progress in stabilizing their economies and building democracies. Further cuts to our aid programs would not just sacrifice ideals Americans support, they would hinder American efforts to strengthen governments which share our views.

The US is leading efforts of the G-7 to reform the multilateral development banks. But we cannot reap the benefits of those reforms for American interests if we do not shoulder our responsibilities and meet our obligations.

There are many positive signs of economic growth and increasing economic and political freedom on the continent. We believe that through increased cooperation and more efficient use of available resources we can help further Africa's positive transformation.

Chairman CRANE. Thank you, Mr. Secretary.

Mr. Secretary, some European countries, notably France, say that they have a special relationship with their former colonies. Does that serve as an impediment to the advancement of trade between the United States and sub-Saharan Africa?

Mr. MOOSE. I think that for too long some have accepted the notion that there should be or is some sort of special relationship between Africa's former colonizers and that continent.

We, have been very clear in our view, that the United States has something to offer Africa, that we are as competitive as anyother nation when it comes to providing goods and services in Africa, and that we intend to seek a larger share of the African market.

My own view is that it is going to be good not only for the United States but for Africa, that competition inevitably means that Africans will have greater access to better technology, at more affordable prices, and that trade can make a significant contribution to Africa's own development efforts.

I think we have seen that time and time again, where we have American businesses competing in the African marketplace, bringing the advantages of their knowhow, their technology. It very much serves the interests of Africa.

Chairman CRANE. Very good.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Ambassador.

Right now we are on the floor debating a bill for English only. I do not know what that has got to do with us in trade, but obviously there is some strong feeling about people speaking a foreign language in this country. I thought we were supposed to expand foreign markets in order to improve the quality of life in our country.

Having said that, do you think that the State Department properly reflects the presence of professional African Americans as we attempt to send out foreign service officers to these countries, as well as Latin countries? Because it appears that witness after witness keeps reminding us of this colonial tie, as though culturally they have understood better the needs of these new emerging countries, and that their presence is there and that they work a lot closer, which might allow someone as uninformed as I to believe that we are not only not doing all that we can, but we may not be structured in such a way in the State Department to truly reach out to many countries. But, of course, my concern is with Africa.

Do you think we adequately have selected professionals that could do the best job in relating America's concern?

Mr. MOOSE. Congressman Rangel, what you say is, indeed, important. It is important as we do business around the world, that the people we do business with see some affinity between our country and the diversity that we represent and their own cultures and societies.

Second, as a veteran of 29 years now in the Foreign Service, and as someone who has participated in repeated efforts over the last 29 years to improve our recruitment practices, to ensure that our Service is more representative and reflective of American society, I still believe there is a lot more that we need to do in order to ensure that all of our foreign services—the State Department, USIA, AID and others—are, indeed, reflective of that diversity.

There is, I am convinced, at the senior levels of our Department and of our administration, a commitment to doing that, and there is, indeed, a current effort underway to try to improve upon our performance, our ability to recruit more broadly in our society.

It is important to understand Africa, as in any part of the world, which is not to say that Africa should be an exclusive purview for those of African origin. But it is clear, as I travel around the continent, that there are many African Americans who, because they feel a cultural affinity and historic tie, undertake business in Africa. So, to the extent that we want to encourage them, I think it is important that we take into account that reality.

Mr. RANGEL. It has been my experience with Africa and the Caribbean that the person that normally comes to express their interest in the African or Caribbean country is the American investor rather than finding a natural constituency. In other words, this being basically a European country, there seems to be more of a relationship with many groups here that know, even though they are generations apart, as to what would be in the best interests of a country in the Middle East or in Europe, or the ability of the Asians to really find Americans to present their case in the way that Congresspeople understand. I have not really found that type of advocators as to what would be in the best interests of African countries.

You being in a different branch of government, do you find any differences in terms of those people that would make some appeal to you on behalf of, say, the African countries? I mean, would you normally find those people who are African American, which I do not find, or do you find the business sector concerned with their investment?

Mr. MOOSE. Two things. Number one, as I indicated before, I do think there is a kind of attraction, affinity, that exists between African Americans and Africa, and that is reflected in the fact that there are a good many African American entrepreneurs, seeking to do business across the African continent.

But I would say, more broadly, we have interacted in my Bureau, in our Department, with a range of interested entrepreneurs, American and African. We have done our best to—and I think this is exactly what we ought to be doing—to support all of those initiatives, where we have felt that these, indeed, were people who were genuinely trying to pursue legitimate business interests.

There is a growing recognition in the broader American business community, that Africa represents a new opportunity, a new frontier, and opportunity for American business. That is reflected in such things as the recent creation of the Corporate Council in Africa, which has now got a membership I think well over——

Mr. RANGEL. I did not really focus my question correctly. But I must say something pretty dramatic.

In my 25 years here, I do not remember ever an African American in my district wanting to sit down with me to discuss a trade issue in any African country. I thought, in view of the fact that we have to move so swiftly in trying to bring our relationships to a more successful conclusion, that perhaps we could work differently on this, with a task force, where we have knowledgeable Americans, black and white, working together, better informed, so that when an issue comes before the Congress, there is a constituency that is not there to complain about a failure but was involved in trying to build up more awareness of how important it is to the United States of America, as well as to these African countries.

I have just not seen it, notwithstanding the fact that the State Department has to swiftly integrate its department, in terms of influencing this Congress. That is why I think Mr. McDermott, Mr. Payne, and Mr. Jefferson, once I get past them, I have a problem in terms of making a concrete contribution.

You could help us in identifying those people in the administration, with Members of Congress, that could meet and keep each other informed, so that some of our African friends might feel more comfortable with us, since we would be at least sensitive enough at least to try to find out what their problems were. I know you have gone a long, long way in doing that, and maybe you can help us in how we can be supportive so that it does not appear to be a State Department of a trade issue but means that it is an American issue as well and more Americans should be aware.

Let me thank you for your contributions, and thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Ambassador Moose, I must apologize for not being here during most of your testimony. As you know, in the Congress we are always doing three things at once and I was out talking about health care. I have met with you in my office, so I have already talked to you a little bit about this.

I am pleased to read in your testimony about the whole question of debt overhang and what needs to be done in that whole areas, and I look forward to working with you and Secretary Christopher on this whole issue.

There is one thing that we heard in testimony before you came which I want to raise and at least bring to your attention, and that is the impression by some of the other witnesses that, in the budgetary squeeze at USAID, those areas that are being squeezed are actually the private sector encouragement parts of the structure, and that, in fact, while protecting the humanitarian things, which are very important, what has been done is to squeeze the private sector side so that, in fact, it further delays the actual promotion of the kind of private sector involvement that I think you and I are both working for. I hope that we can work together on that in the future. I thank you for coming. Thank you, Mr. Chairman.

You're certainly welcome to comment.

Mr. MOOSE. Thank you very much, Congressman.

I do not profess to be the expert on this, or to be able to speak authoritatively for my colleagues in AID, but it is true, frankly, that as the overall levels of our foreign assistance budget have been reduced, that what has tended to get squeezed in that reduction is, indeed, those parts of the budget that in the past we have tried to devote to stimulate growth in Africa.

I recall when I was in Senegal, for example, one of the most ambitious programs we had there was a program to help reform the banking sector funding from AID. Again, the money that is available for those kinds of activities have become scarcer and scarcer as we have faced the overall reductions in the budget, and the protection, for reasons I understand, of certain parts of that budget in order to address what people regard as some priority needs.

I would hope that somehow we can find a way to restore to the AID budget and to other parts of the budget those kinds of activities which I think would be supportive of the private sector and, indeed, stimulate and, indeed, leverage greater contributions from the private sector. We have done some of that in South Africa, and I think we can do more of it elsewhere across the continent.

Mr. McDERMOTT. Thank you.

Chairman CRANE. Mr. Payne.

Mr. PAYNE OF NEW JERSEY. Thank you very much.

Let me first of all thank you, Mr. Crane, and Mr. Rangel and Mr. McDermott, for inviting me to participate on this very important issue. We have brought it up—As you may know, I am a Member of the Subcommittee on Africa and this issue of trade has been discussed this year, and even previous to that at some workshops we have had with the Congressional Black Caucus. As a matter of fact, the whole question of trade several years ago was heavily discussed. So, I think this is very appropriate.

Let me just ask the Secretary, when we talk about the debt, it would appear to me that, one, we have a reduction in the numbers, the percentage of trade that Africa has compared to a few years ago. It says it has declined from 3.6 to 1.5 percent in 1994. Actually, the debt in Africa, if you computed it, actually accounts for 234 percent of the external trade that Africa has annually.

So, my question is, many times you look at the reduction of debt through external trade, cash coming in. How will Africa be able to rid itself of the debt, and is it realistic to feel that with structural changes we can really increase trade unless we deal with the debt problem first? Finally, then, what is your suggestion as it relates to the $313 billion of external debt that the 48 sub-Saharan African countries have totally?

Mr. MOOSE. Thank you, Congressman Payne. Indeed, this is an issue which we regard as being one of our highest priorities.

I am not an expert on the debt issue, simply to say this, that currently the 48 sub-Saharan African states owe about $223 billion in debt. Now, that gross figure is significant, but it is not all that large, except in proportion to the capacity of those economies to sustain and repay that level of debt.

Now, over the last several years we have made, considerable progress in the relief of bilateral debt, and particularly through the Paris Club and our agreement with our G–7 partners and others on the so-called Naples terms, which allow us to forgive up to 67 percent of the debt of least developed countries, at least those who are performing and meet certain criteria. That has already begun to have a significant impact on bilateral, official debt of many African countries.

We now, however, are confronted with how do we go beyond the 67 percent. There are many, administration officials in Treasury included, who would like to see us do that. But, part of that is contingent upon being able to fund that out of our own resources, because it does require a budget outlay in order to do it.

The other critically important debt, which has gotten increased attention over the last 2 years, is multilateral debt. Roughly a quarter of the $223 billion which Africa still owes is owed to multilateral institutions. So, there is a growing recognition that if we want to do something serious about relieving that debt overhang, improving the ability of Africans to repay their debt, and also freeing up money that can be invested in development, then we need to address that issue as well.

As you know, at the recently concluded G–7 summit in Lyon, there was a reaffirmation of a commitment by the G–7 partners to do something about this critically important element of multilateral debt. I had the privilege of meeting with Mr. Camdessus just a few days ago and I know that he is determined to honor the charge he has been given to work out a solution to multilateral debt.

If we can do that, I think we will make a significant contribution to improving the economic opportunity for those African countries which are performing. It will remove a tremendous burden on them and thereby free up their ability to invest in productive investments in their own countries.

Mr. PAYNE OF NEW JERSEY. Thank you.

Before the red light comes on in about a half a second, let me ask a quick question.

There is information about the Lome Conference of 1976, where there was a special relationship between African countries and European countries. You know, with Lome II, currently in the Caribbean, we are engaged in a section 301 dispute with the banana products in the Caribbean and the Chiquita banana situation in Latin America, where the Caribbean nations are being squeezed because GATT supersedes Lome II and they just simply cannot compete. But with the special relationship with the Lome Convention, they were able to export their products, the banana products, to Europe.

What will preclude the lesser developed African countries, once the Lome situation is eliminated by virtue of GATT and other treaties, the same 301-type dispute, and what will happen to the least developed of the sub-Saharan countries who will be simply unable to compete?

Mr. MOOSE. I will have to, Congressman, say that I do not know the answer to your question. Hopefully I can get back to you.

[The following was subsequently received:]

The administration recognizes the importance of the banana industry to both Caribbean and African producers and it supports the continuance of the tariff preferences and assistance which the European Union (EU) provides. In fact, the United States supported a waiver in the World Trade Organization (WTO) for the Lome Convention which contains these preferences. However, we continue to oppose the discrimination against U.S. firms which exists in the EU's import licensing scheme. Access to the EU market can be assured by other means which would not injure U.S. companies.

In September 1995, the United States decided to pursue this matter in the WTO because the EU refused to negotiate with us. The United States has been joined by Guatemala, Honduras, Ecuador and Mexico in the WTO case. It is important to emphasize that our case is against the European Union, and not against Caribbean or African banana producers. The United States wishes to eliminate the discriminatory aspects of the EU regime which favor European banana marketing firms over other multinationals. This case is not intended to adversely affect the competitiveness of African or other producing nations.

As overall tariff barriers and tariff levels have declined, it has resulted, at least in theory, in greater access for African products and the products of other developing countries to other markets—European, United States, and others. That gap, therefore, between a trade preference as offered through Lome and the standard tariff has shrunk.

In my view, over the long term lesser tariff create significant opportunities for Africans to expand their production and their exports to the world markets. I think we are all agreed, however, that for them to take advantage of that, they are going to need some help in the short term. they are going to need help in seizing the opportunities that have been created by this reduction of tariff barriers.

The Uruguay round, in my view, offers a unique opportunity for Africans to begin to expand their global markets and also to be more competitive in their own markets. But we need to find ways to help stimulate and enable them to take advantage of that.

We have offered, as part of our initiative through the WTO and through UNCTAD, ways of providing technical assistance to African countries so that they can, in fact, take advantage of those agreements.

I would add that one of the most unfortunate aspects from our perspective is the nonrenewal of our GSP Program; that would benefit many African countries. I would hope that Congress could renew GSP soon so that, in turn, we would be able to offer an incentive for improved access of African products to the American market.

Mr. PAYNE OF NEW JERSEY. Thank you very much.

Chairman CRANE. Mr. Secretary, I want to express appreciation to you for coming to testify, and also to give you a word of encouragement, that in our conference report on the tax bill and the minimum wage hike, GSP will be renewed, mercifully. We look forward to working with you in the future, too, on this issue.

With that, I will let you take leave, but I would like to give Mr. Rangel, however, a chance to say goodbye.

Mr. RANGEL. Thank you. I think it is saying we look forward to working more closely together, with the congressional group that my colleagues will have, and you can identify from the administration where we can get that task force, so that our exchanges would not have to be over mikes but, rather, having a better understanding. Then we can close it out over the hearings.

Mr. MOOSE. Mr. Chairman, I thank you and the Members of the Subcommittee for the opportunity to appear, and for that good news that you just provided. Thank you very much.

Chairman CRANE. Very good.

Next our final panel. Stephen Lande, Mima Nedelcovych, William Bucknam, Melvin Foote, and Doug Tilton.

Gentlemen, your printed statements will all be made a permanent part of the record, and if you could try and condense your remarks to 5 minutes in your presentations, in the interest of time, because we are going to be faced with some more votes.

I apologize to you, Mr. Lande, for mispronouncing your name. But we will start with you, Mr. Lande, and then work down the order that I indicated from the schedule.

STATEMENT OF STEPHEN LANDE, PRESIDENT, MANCHESTER TRADE, LTD

Mr. LANDE. My name has always been a challenge. When I was in the Foreign Service, they very nicely changed to the French pronunciation, "Landé," but when my father did not know whom they were talking about, I went back to "Lan Dee," which is the New York pronunciation. So, I thank you.

There are always advantages to testifying on the last panel. Although you may have a smaller audience, we do have more Congressional attendance, other advantages are being able to plagiarize the best of the other testimony, and you can dispense with background since others have already covered it. I would like to try to anticipate Congressman McDermott's question by seven steps to be looked at that perhaps by the Subcommittee.

First, I would suggest that the U.S. Trade Representative be instructed to work with the European Union, Japan, and selected newly industrialized countries, for example, Korea and Taiwan, to negotiate free trade with Africa. Even though I fully support the McDermott proposal, I think it would be more effective for such negotiations to be conducted collectively by these countries.

The only change I might make in the proposal is in the proposed timeframe. I would leave the year 2020 deadline for Africa to open its markets to the United States. I would also borrow from APEC, the Asian Pacific Economic Community, forum, the developed country members, including the United States, open their markets by the year 2010. This would provide a little special treatment a longer timeframe for them to assume full responsibility.

My second principal recommendation is that the United States should fully support economic integration within Africa. In fact, I picture, within a shorter timeframe, one should urge the existing regional groupings—there are three or four major ones in Africa—to achieve free trade between themselves by the year 2005. The United States, Europe, and other developed and rapidly developing countries would allow free trade from Africa by 2010, and Africa would allow free trade by 2020.

The United States should continue to encourage subregional integration. When Vice President Gore visited Botswana, he successfully urged SADC, the Southern African Development Community, to achieve free trade. We offered to provide technical assistance. I was pleased to be the consultant selected for this work. Assistance in terms of financial support, could also be provided whether it comes from the European Union, the United States, or the World Bank. It helps African countries to cope with the short-term shortfall, in tariff revenues which they will experience as they move toward freer trade. We all know the problems we have even here in the United States in terms of offsetting reductions in revenues from eleminating duties. Also, there could be some balance of payment shortfalls as imports increase in response to market liberalizations. Covering these shortfalls is a legitimate role for economic assistance and would facilitate movement towards freer trade.

It is extremely important that South Africa realize its responsibility in the area of attaining free trade in the subregion. In the same way that South Africa benefits from the liberal trade policies of some of its larger trading partners, it must maintain liberal trade policies first for Southern Africa, and then eventually for the rest of Africa as well. South Africa has both a responsibility and an opportunity in the pursuit of trade liberalization.

The other items are more technical, so I will run through them quickly.

Consideration should be given to putting Africa on the agenda at the Singapore Ministerial of the WTO, World Trade Organization. This will be the first meeting of this new organization and certainly Africa deserves to be on the agenda as a special problem, or maybe I should say a special opportunity.

Some of Africa's complaints we should not even try to respond to. These are complaints about a reduction of GSP and Lome preferential margins and MFN duties are reduced. These are part of trade liberalization which benefit all countries.

There are some very strict criteria for forming free trade agreements under article XXIV of the GATT. Perhaps there could be some dispensation for Africa as we move in this direction.

I see the yellow light going on, so I will just give a couple of sentences on each of the other recommendations.

If GSP is to be renewed beyond the expected May 1997 extension, there should be a special provision for Africa within GSP. The extension currently under consideration includes special provisions for the least developed. Specific recommendations should not be limited to only least developed countries. It does not reward those countries that are successfully meeting the challenge, whether it be Botswana, Ghana, or Uganda. More favorable treatment under GSP should be extended to all African countries.

Four, although normal trade conditionality is important—what I mean are our requirements for eligibility under GSP, IPR, intellectual property rights, settlement of expropriation cases, labor rights etc.—one should bear in mind that when we talk about encouraging African development, we are talking about more general conditionalities. We are talking about responsible macro-economic policies, which lead to market openings, budget discipline, privatization etc. Narrow conditionalities which apply to day-to-day work in U.S. trade policy implementation should not be the highest priority in our policy towards Africa.

The last item is the apparel question, which was very perceptively roused by Congressman McDermott today. Based on my experience with CBI, I have two suggestions:

First, you should focus on the three different types of apparel imports because each of them have a different effect, politically, in the United States. Apparel produced from American fabric, apparel produced from local fabric, and, of course, apparel produced from third country fabric. It is the third category, especially when produced from Far Eastern material which; first, is politically difficult to provide duty-free access. Most of the value of the product is added outside of Africa and the United States, which gives little benefit to African producers and potentially harms American producers. Of particular importance is the implementation of adequate origin rules.

Second, I would suggest strongly, that the way to approach the apparel question is through either a Congressional group, or the USTR, or a combination thereof, meeting with the different players who influence textile policy, whether they be mills, apparel manufacturers, importers, retailers, labor unions, and so forth, one should include African experts as well. Among there interests, you can try to work out some type of textile provisions which would be acceptable and have a chance of passing Congress.

Thank you very much for the time you provided me to present my views. I hope they have been helpful.

[The prepared statement follows:]

Manchester Trade, LTD.

International Business Advisers

1155 FIFTEENTH ST., NW
SUITE 302
WASHINGTON, DC 20005

STEPHEN LANDE, *President*
NELLIS CRIGLER, *Vice President*
MICHAEL LANDE, *Research Director*

Telephone: 202-331-9464
Facsimile: 202-785-0376
E-Mail: **slande@dcez.com**

TESTIMONY OF STEPHEN LANDE
PRESIDENT OF MANCHESTER TRADE
U.S. TRADE WITH SUB-SAHARA AFRICA
before the
SUBCOMMITTEE ON TRADE OF
THE COMMITTEE ON WAYS AND MEANS
August 1, 1996
Room 1100, Longworth House Office Building

I am very pleased to have been invited to address the hearings of the Trade Subcommittee of the Ways and Means Committee. I applaud the efforts of the subcommittee to develop an African trade policy to mirror similar American approaches toward the Western Hemisphere in the Free Trade Agreement of the Americas (FTAA), towards East Asia and some key Western Hemisphere trading partners in the Asian Pacific Economic Community (APEC) forum and towards the European Union in the TransAtlantic Dialogue (TAD) and the TransAtlantic Business Dialogue (TABD).

I strongly endorse proposals for an American policy which would encourage the full integration of Africa into the world economy. Coincidental, while preparing for this hearing, I read an article in The Economist of June 29th, "Growth in Africa" by Jeffrey Sachs. He suggested that the best way to overcome the practical obstacles to a new dawn of rapid growth throughout Africa would be for the major African donors (America, members of the European Union and Japan) to launch a **"New Compact for Africa"** guaranteeing open markets for African exports and committing themselves to help reintegrate Africa into the world economy. I would add some of the Newly Industrialized countries such as Korea and Taiwan to this initiative. I foresee that the new compact would include elements of the Crane-McDermott proposal for a free trade agreement but it would involve not only the United States but Europe, Japan and Far East NICs (Newly Industrialized Countries) as well. It would also involve support of constructing subregional free trade areas in Africa.

The latest World Bank report on *Global Economic Prospects and the Developing Countries*, argues that differences in growth performance by developing countries owe less to internal factors than the degree to which countries are integrated with the world economy--namely to what extent they participate in international markets for goods, services, capital and labor. The quarter of developing countries that integrated most quickly in the past decade grew nearly 3 percentage points a year faster than the slowest integrating quarter.

According to the report, increased participation in international trade facilitates growth through improving resource allocation, enhancing efficiency by increasing competition among firms and inducing learning and technology transfer.

The list of slow integrators over the past ten years include most countries to Sub-Sahara Africa. The countries with disappointing performance generally have relatively high duties which have not fallen significantly. These countries have also experienced weak inflows of foreign direct investment. The ratio of both trade and foreign direct investment to national income fell in many of these countries in contradiction to the tendency in most other developing countries to increase.

Output per head in Sub-Sahara Africa fell 0.7 percent between 1978 and 1987 and 0.6 percent during the 1987-94 period. Some growth is estimated for 1995 but only 0.6 percent. Asia recorded a whopping 7 percent per capita growth in 1995. Africa received about 3 percent of the foreign direct investment flows to developing countries while developing countries in East Asia and the Pacific attracted about 40 percent of the FDI flow.

This is not to say that there have not been significant success stories in Sub-Sahara Africa. Mauritius, Botswana and most recently Ghana and Uganda are notable successes this decade. The 1995 growth of these countries was, however, slightly below the 5 percent growth rate averaged by developing countries that year. Many believe that with the curse of apartheid now eradicated, South Africa could become the newest NIC once its current adjustment is concluded. Zambia has taken the lead in trade liberalization in southern Africa.

In fact, although it is necessary to talk of Sub-Sahara Africa for purposes of any initiative for the Continent, one should realize that there are significant differences in performance within a grouping of 48 countries within the sub-continent. In fact, any strategy for the region must be built around successful African countries which can become poles of developments for their subregional neighbors.

I, thus, enthusiastically endorse the proposed legislation to develop free trade between Africa and the United States. Congressman McDermott has already described this proposal in some detail. The agreement with sub-Sahara Africa would represent an accord with a potential growth pole of the next century. The economic potential for American companies being on the ground floor for this growth is also a compelling reason to consider such a proposal. Also, the current level of development of African economies, in almost all cases make them incapable of causing damage to U.S. producers which is not true of more advanced developing countries.

There has been some concern that the low levels of trade would not justify a free trade agreement with the region. I would like to remind the committee that the United States entered into a free trade agreement with Israel, despite its low quantitative ranking among American trading partners. The agreement reflected the economic, political and cultural linkages by a number of Americans in the same way as such an agreement with Africa would be particularly important to a number of Americans.

I would also point out that the United States has an opportunity for export growth since it has less than ten percent of the market in Sub Sahara Africa compared to the 41 percent market share held by the European Union.

Despite the above and to be realistic, however, one must realize that until the American public is satisfied that NAFTA has been a successful job creator, there will not be much enthusiasm for free trade with other countries. The CBI parity bill, a less ambitious initiative for a region that has significant trade with the United States to provide equity for the Caribbean Basin apparel shipments compared to imports from NAFTA failed to pass Congress in 1995 and 1996 because of this disillusionment.

Fortunately, the prognosis for a sustained Mexican recovery is positive which should increase the acceptability of African free trade next year. Mexico is already growing on a monthly basis. In fact, most trade experts argue that the Mexican peso devaluation was not caused by NAFTA and in fact, the existence of the agreement is actually speeding recovery. NAFTA has contributed to a much less prolonged crisis this year than the previous crisis in 1982.

Also, the American public must become better educated about the current economic and political situation in Africa. Although such African hot spots as Burundi, Liberia, Nigeria, Rwanda, Somalia and Zaire, most of the 48 countries in Sub-Sahara Africa are adopting democratic political principles and market-based economic reforms.

The compact must include other elements as well to be effective. In the non-trade area, the United States must lead efforts for debt relief, privatization of inefficiently run state enterprises or government sanctioned monopolies, a continental war on corruption and regional infrastructure assistance program for basic transportation, energy and telecommunications programs. Assistance should be provided to reform government budgets to see a reduction in deficits, introduction of a more effective tax collections allowing a reduction in private sector initiative numbing exorbitant tax rates, a smaller role for governments and a shift in priorities from non-productive subsidies such as for publically owned companies, urban workers and agricultural producers to increased expenditures for education and health.

To assure that there is a coordination of the different policy initiatives, the Administration has established an interagency Africa Trade and Development Coordinating Group. The group should receive a Congressional mandate with specific responsibilities for suggesting legislative and administrative initiatives to the President and to Congress.

The initial report on "Comprehensive Trade and Development Policy for the Countries of Africa" submitted by former USTR, Ambassador Mickey Kantor under Section 134 of the Uruguay Round Agreements Act was a good beginning for this coordination. It laid out five objectives for the focus of American policy. They are trade liberalization and promotion, investment liberalization and promotion, development of the private sector, infrastructure enhancement and economic and regulatory reform.

I suggest, however, that the new group keep in mind that many of the problems in Africa are unique to the continent. Given this uniqueness. one should not automatically assume that policies which work in some developing country settings would necessarily be effective in all African countries or for that matter, solutions for one country in Africa may not work in the other countries. African uniqueness reflects the longer period of colonial rule, the continuing poverty in many areas, the number of national and tribal subdivisions within the continent (Sub-Sahara Africa has 48 countries compared to only 12 countries in South America), the geographical isolation of many population centers, the pervasive role of government and the low level of infrastructure development.

I will focus the remainder of this statement on this aspect of U.S. relationship with Africa. This emphasis on trade conforms to Sachs' prescription for economic growth in Africa. Sachs estimates that the African growth rate each year is about 5 percent lower than it should be based on normal economic expectation for developing countries. Most of this lagging growth can be ascribed to two factors--extent of market orienta- tion including openness to trade and the national savings rate.

The lack of trade openness contributes to about 40 percent of this shortfall. Thus by opening African economies through the new Compact, a significant portion of the problem can be addressed. In trade, we should go beyond consideration of a free trade area simply between the United States and Africa. The Administration should be instructed to use its negotiating leverage to gain support for a multilateral free trade approach with Africa. The United States should promote free trade in Africa's relationship with other countries. This would be both within Africa and in African relations with the developed world.

There is already very close consultations concerning debt relief and other financial matters among donor countries which include the United States, the European Union and Japan. These consultations should be extended to the trade area as well.

The timing may be appropriate for negotiating such an initiative.

1. The US GSP program is currently not in effect and the extension currently under consideration will only last through May, 1997. An African free trade initiative may be more appropriate and even more politically acceptable than a further extension of non-reciprocal GSP.

2. The European Union agreement with its former colonies--Lome--is expiring at the year 2000 and preliminary discussions on renegotiations are already under way.

   In addition, the European Union is in the process of negotiating an agreement with South Africa providing for the establishment of free trade between them within twelve years.

3. Japan and some of the NICs have not been that actively involved in Africa waiting for more political stability. (Taiwan and for that matter, Israel have been an exception having been active for political reasons tied to its need for diplomatic recognition and its position as a success model for a number of African countries.) The time has come for the Far East to make a contribution.

Unilateral free trade such as that under Lome or GSP may no longer be the best route for promoting development. The disciplines of reciprocity is in the interest of developing countries. Excessive protectionism does not assist a country in integrating into the world economy. The Crane McDermott proposal would provide this discipline; a second renewal of GSP would not.

Such agreements must recognize the domestic constraints on African countries and thus allow more time and flexibility for obligations to be implemented. Thus any such free trade agreement would probably have to allow many of the African concessions to be phased in over a period lasting longer than the 10 to 12 years customary for FTAs. Technical assistance is required to assist many African countries to establish the administrative structure necessary to implement many of the Uruguay Round agreements.

Also, origin rules will be particularly difficult to design. On the one-hand, they cannot be too demanding since African countries, with one or two exceptions, lack the industrial base to produce components for modern manufacturing and assembling. However, in import sensitive areas, they cannot be so liberal as to allow excessive amounts of third country materials to undergo minor transformation in Africa for reexport to developed countries. This would lead to a lack of political support in the United States for such arrangements plus there would be only be a minimal value-added content in Africa. This is a particular conundrum for apparel produced from Far East materials.

A second and perhaps even more immediate possibility is offered by agreements within Africa for subregional and regional integration. I strongly support the United States asserting the lead in the development of these agreements. These agreements could form the building blocs for eventually forming a free trade agreement encompassing the whole continent. This model is similar to the model being followed in the Western Hemisphere with the formation and deepening of subregional agreements. (Unfortunately due to the absence of fast track, the is not participating in the process today.) There are now five such subregional groupings in the Western Hemisphere (Andean Pact, CACM, CARICOM, MERCOSUR and NAFTA).

In Africa, there are similar agreements. Two of the larger agreements already provide for a free trade customs unions-SACU (the Southern African Customs Union consisting of Botswana, Lesotho, Namibia, Southern Africa and Swaziland) and UDEAC (the Customs and Economic Union of Central Africa consisting of a number of former French colonies.) Other agreements making progress towards the goal of free trade include COMESA (the Common Market for Eastern and Southern Africa) and ECOWAS (the Economic Community of West African States) include most countries in South and East Africa and West Africa respectively.

The most active African negotiations today is taking place under the umbrella of SADC (the Southern African Development Community consists of SACU members plus Angola, Malawi, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe). Eventually Kenya and Uganda should join this effort. As part of an attempt negotiate protocols covering all aspects of trade relations, SADC is considering a trade protocol which would establish a second generation type of FTA. This means that it goes beyond simple tariff elimination to include eliminating as many market access restrictions as possible and addresses such other issues as competition policy, corruption, government procurement, investment, services and standards. South African support for this effort is crucial since it provides the largest market in the region.

The United States along with other developed countries and the MDBs should actively promote such free trade agreements. Below, I have listed four ways where these countries can assist.

First, any liberalization effort requires temporary balance of payments assistance. Developed countries should concentrate this type of assistance on countries opening their markets.

Secondly, developing country budgets are reliant on tariff revenues for funding domestic programs. Thus a reduction in duties must be offset somewhat. In the United States, we do this through reducing expenditures in other programs or through finding alternative resources from new or increased taxes or suer fees. This is even difficult in the United States. Witness the recent struggles over funding NAFTA, Uruguay Round tariff reductions, GSP and CBI parity. Then think how much more difficult such a process will be for Africa.

Initially, some revenue would have to be provided by foreign resources at least until the duty reductions generate new business activities which will offset the loss in general revenue. The European Union and the World Bank are providing some of these resources.

Third, there is need for adjustment assistance. Fortunately, due to the level of development, the amount of dislocation from increased imports will be minimal.

Fourth, funding is required to assure that there is physical infrastructure to take advantage of free trade, One needs roads, telecommunications to make sure that trade and investment can follow the trade liberalization inherent in a free trade agreement. This involves coordination with donor countries and Multilateral Development Banks. At this time of scarce official resources, it also involves developing new mechanisms to tap the resources of the private sector.

Chairman CRANE. Thank you, Mr. Lande.
Next, Mr. Nedelcovych.

STATEMENT OF MIMA NEDELCOVYCH, VICE CHAIRMAN, CORPORATE COUNCIL ON AFRICA

Mr. NEDELCOVYCH. Thank you, Mr. Chairman, Members of the Subcommittee.

It is a particular pleasure to be able to testify here this afternoon on behalf of the Corporate Council for Africa. Personally, to me, it is a particular pleasure, as I have basically lived and breathed Africa all my life, having grown up in Ethiopia and then lived professionally in a number of African countries, serving 4 years as U.S. executive director of the African Development Bank, until 1993. I have since come back and am working now in international business throughout Africa with F.C. Schaffer, a sugar corporation that is building, designing, and operating sugar plants throughout the continent.

It is a particular great pleasure to appear as vice chairman of the Corporate Council. We created the Corporate Council specifically to fill a void that we saw, when there was no business voice, if you will, for Africa. People did not come to ask opinions of American businesses doing business in Africa. That is one of the main reasons that the Corporate Council was created, and also to be able to extend our hands across the continent to be able to create this sort of growth and joint ventures that we would like to do with our companies.

The Council now, in fact, has raised its membership up to about 100 members, and is growing. We represent companies of all sizes, and are, if you will, the practitioners on the continent. We operate in all services, trades, and investments and turnkey projects.

So, I think what I would like to do in the short time is to be able to give you, to some extent, our practitioner's view because we appreciate very much that finally the subject of trade, not aid, growth in the private sector and opportunities on the continent, are getting the kind of attention that we thought all along should have been the case.

We and our members strongly feel that, as far as the continent is concerned—and it is a truth—the billions of dollars that have been basically sunk into development over a number of years—and I am not telling any secrets—has not really led to the kind of results that one would have hoped. So we are of a strong belief, therefore, that it is not so much throwing money at the problem but, more importantly, how we use the money that is put out there. That is the issue.

As we operate throughout the continent, Mr. Chairman and Subcommittee Members, we have seen a lot of encouraging signs. We have seen governments that have become responsible to their people, governments that have begun to take an open view clearly to open markets, open economies. You know, to some extent, one can say that the light has lit up, and to another extent one could also say that there really is very little choice. I think the hard fact has come down to the African leadership, the African elite, that resources are scarce and resources have to be utilized in the most effective manner. That, from our perspective, is a key element as to where we see the future of the continent.

Now, a major issue comes in in terms of implementation. Yes, we are all happy with the results of free markets, the growth, the end of the road. But no one, and certainly none of our members, will state that it is an easy road to get there. There are many hard bumps on the way. There are very basic human needs and very basic infrastructure problems along the road to an open market and the end result of development. But, we are of the strong belief that it is, in fact, the only road. And it is, in fact, the one way that U.S. business, U.S. knowhow, can very much contribute in assisting this type of growth.

Take, for example, this mantra of "trade, not aid." We have all heard it. What does it mean? Well, from our standpoint, as I said, we are practitioners. we are not in the aid business. We might have aid benefits that come up, but we are in the business of growth and in the business not only of promoting our own interests, but in so doing, jointly promoting the growth and benefits that are to be found on the continent.

We feel that only through that kind of private sector growth can the basic human needs be sustained over a period of time. Therefore, that, to us, is the most effective way to utilize resources.

If one were to get to point out a couple of specific points, there are very critical agencies that have been very supportive, clearly, in our operations—and here I am generalizing across the various companies in our Council. One can name them. You've heard the Department of Commerce, with their advocacy roles, and the embassies have clearly gotten the message and they are out there to support us; AID with their attempts at promoting U.S. involvement; very critical agencies that I will pinpoint that we, as petitioners, have been able to benefit from. The Trade Development Agency, the U.S. Ex-Im Bank, OPIC, these are all agencies that certainly people are familiar with what they do.

The one thing I would state from a practitioner's standpoint that is very important is the ability for these agencies to be able to support U.S. business most effectively. We operate very much—we at Schaffer—in Francophone countries. We are constantly up against the European mechanisms of finance, and a colleague of mine will deal more specifically with Ex-Im, so I will not steal much of the show. But, it is a very critical element to be able to match the kind of funds that come out of Europe. If we agree we want to do it, we can figure out a way to do it. That is the key issue to me.

Right now Ex-Im is closed in most of the African counties. Let's identify the problem that is there and how we resolve it. USAID really must want to support U.S. business—and it has not for a long period of time been in the growth business, trying to grow economies. Now, I have seen over the last few years USAID shift back more toward the basic human needs side. In my mind, we are reversing a certain positive process we began, and that is the sustainable ability to meet needs through growth.

If I may make another specific recommendation, the Trade and Development Agency provides, what I call, the opening wedge for U.S. business to go in and identify opportunities, to help defray some of the front-end costs with feasibility studies. Why is that important? To newcomers in Africa—and this is for many companies in the Council—it is difficult to enter the market. It is timely, therefore, it is costly. Any ability to be able to defray those costs is of great benefit.

The ability to create the opportunities for the various countries' leaders, be it business or political, to have the interchange and exchange with our leaders on the business side, also is a great supportive element.

Members of the Subcommittee, I can go on and on. The prepared statement is there, as the Chairman stated earlier, so I will proceed with the conclusions. My final recommendation is that we here are convinced that there is good business to be done in Africa—certainly I can speak as a practitioner that there is—and if we are convinced that it is through business, the private sector, that growth is achieved, and that growth meets best the needs of the countries, then we can create that kind of alliance between business and government and allow each of us to do what we do best.

I thank you. I remain open for questions.

[The prepared statement follows:]

STATEMENT OF
DR. MIMA NEDELCOVYCH, VICE CHAIRMAN
CORPORATE COUNCIL ON AFRICA

The Corporate Council on Africa

Mr. Chairman and members of the Committee, it is a great pleasure to have been invited to appear before you as a representative of the Corporate Council on Africa. As you may know, the Corporate Council on Africa is a private, non-profit organization, composed of nearly 100 American corporations and individuals who came together in 1992 to promote the growth of the private sector in Africa. Our members represent a broad set of interests and hold a variety of views on most African issues, but they all agree on the Corporate Council on Africa's guiding principle that the engine for economic growth in Africa must be the indigenous African private sector.

It is the African private sector, not foreign assistance, that will create jobs, create new enterprises, provide a tax base for African government, and improve the quality of life for all Africans. When Africans create wealth, they can feed and clothe their own families, educate their own children, and demand that their leaders provide good and accountable government to provide for their common welfare.

For too long, the international community has pumped billions of dollars into Africa to promote "development," but the impact has been minimal. According to one study conducted by the London School of Economics in 1994, sub-Saharan Africa has received over $170 billion in international aid over the past decade, yet during the same period, living standards fell by 2% annually and are now lower than they were in 1970. There is no question that the international community must and should respond to Africa's compelling needs, particularly in the wake of the continent's all-too-frequent man-made and natural disasters. However, there is also no question in the minds of the American business community that the ingredient most often overlooked in the development equation has been the private sector, in Africa and here in the U.S. In this regard, the Corporate Council on Africa heartily welcomes the Committee's determination to include the views of the private sector in its deliberations.

Encouraging Signs

Members of the Corporate Council on Africa have been doing business in Africa since the early part of this century. In many respects, we are encouraged by what we see. Contrary to the popular images -- seen on magazine covers and nightly news reports -- of children with bloated bellies or young teenagers waving AK-47's, we are encouraged by the growing trend toward elections and democracy across the continent. More specifically, we have noted a discernible shift as Africans come to understand that they have a right to good and responsible governments that do not abuse their basic rights. Military regimes are no longer in fashion, and those which do exist are being pressured to give way to elected civilian governments. On the economic side, we share the views of Assistant Secretary of State for African Affairs, George Moose, when he told the Corporate Council on Africa in September 1994 that "African governments increasingly acknowledge that outward looking policies which encourage trade, investment, and the growth of the private sector are essential for economic development."

Africans Have Got the Message

Across the continent -- from Uganda to South Africa to Cote d'Ivoire -- African governments have begun to put important policy reforms into place. Africans have learned the benefits of more realistic exchange rates, and that they can be implemented without the dire political consequences that were once feared. Functioning stock markets have emerged in 11 African capitals with combined market capitalization of nearly $300 billion, and estimates predict that Africa will be able to increase their share of the world equity market by nearly 35% by 2010. And African governments are coming to realize that parastatial monopolies over power and telecommunications -- which in many African countries were the "crown jewels" at independence and remain symbols of national sovereignty and easy sources of revenue -- must be privatized if they are to attract the foreign technology, expertise, and capital necessary to meet the burgeoning demands of growth.

African governments have also recognized the necessity to lower barriers to intra-African trade if they are to establish competitive markets. Several economic communities have been established, the largest of which are the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS). Last week, at its annual summit meeting in Yaounde, the 53 members of the OAU considered ways to implement the African Economic Community (AEC) treaty which came into force in 1994 and commits its members to a working economic community by the year 2025.

Africans clearly have got the message. On June 24-27, 1996, the Corporate Council on Africa, together with the World Bank and the UN Economic Commission for Africa, co-sponsored an international conference in Accra, Ghana on "Reviving Private Investment in Africa." A number of our members participated in that conference, where they heard directly from key African leaders, including Ghanaian President Jerry Rawlings who has used economic reforms to fuel a period of unexcelled economic growth for his country. In one of the many discussions in which government and business leaders exchanged views, President Rawlings went right to the heart of the dilemma facing Africans as they make this massive change: "I don't understand capitalism, but I do understand the fruits of capitalism."

The Problems of Implementation

The major problem facing African governments today -- which, like President Rawlings, understand the "fruits of capitalism" -- is how to implement the systemic changes they are introducing. Without glossing over the many and complicated aspects of policy implementation, the participants in the Ghana conference identified two key constraints to the success of the reform efforts.

To be successful, African governments will need a cadre of highly-skilled and technologically-proficient people to implement the policies and put new programs in place. In some cases, the sons and daughters of Africa are returning home from good jobs with large companies in America and Europe; that trend should accelerate as they see the evidence that the commitments to reform are sincere. However, Africa's indigenous human capital must be trained and energized with an ability to execute the new policies. Managers need to be trained to make the stock exchanges function effectively, developing new procedures for settlement and clearing accounts and overcoming dismal liquidity ratios. There is also much international experience to be transferred about the mechanics of privatization, whether of national airlines (as in Kenya) or power distribution grids.

The second crucial area is the development of domestic markets large enough to support local business and attract foreign interest. Without a strong domestic market and consumers with disposable income, African businesses will never approach their full potential and foreign investors will continue to concentrate on extractive industries and operations which produce goods for export. Unfortunately, policies which encourage the development of local markets -- primarily low tax rates -- often run afoul of IMF directives designed to enhance government revenues. Nevertheless, the evolution of regional economic communities promises to provide the foundation of substantially larger markets, with the potential to support both American and African investors. SADC, for example, brings a dozen southern African nations together, with a population of nearly 150 million, nearly three times the market of its most prominent member (South Africa) alone. In West Africa, ECOWAS includes 16 countries and a market of nearly 200 million potential customers.

As I have already noted, African leaders have recognized the importance of establishing free trade areas and agreed in principle to reducing tariff and other barriers. However, progress in these areas is notoriously slow and merely opening markets is often not enough. African economies must actively compete for favorable terms of trade and investment with larger and better-known regions of the world, including Southeast Asia. African countries must learn to identify and target individual companies which can complement their development efforts, and then they must take the initiative to aggressively market their advantages.

Meanwhile, other impediments to opening African markets remain. For example, non-trade barriers -- in this case, governmental safety standards -- effectively limit the ability of American automobile manufacturers to sell their American-made products in South Africa. Local ownership requirements remain in force in several countries, including Benin and Zimbabwe, where they send a strong signal that special interests and out-dated protectionism continue to counteract efforts to expand American trade and investment.

America Needs a Strategy

Mr. Chairman, I have tried to sketch a profile of how much of the American private sector views the current economic climate in Africa. Unfortunately, in doing so, I have had to make some very general observations, which obviously do not apply to each nation. The members of the Corporate Council on Africa are active in every country on the continent, and we are more aware than most of the shortcomings of such an approach. Nevertheless, this broad perspective does highlight what I believe many would agree is a need for a consolidated American strategy for dealing with the economic changes underway in Africa today.

Mr. Chairman, many of us have heard the mantra of "Trade, not Aid" as a prescription for U.S. policy toward the developing world, including Africa. It certainly sounds good. Not only does the phrase stress the attributes of enhanced trade in generating wealth, but it also implicitly recognizes the reality of declining assistance resources. However, as a strategy, the concept is unfortunately quite hollow. In fact, U.S. government policy toward African economic development has changed very little in recent years, except for the elimination of a number of AID missions and a reduction in direct assistance monies. There has been no concomitant increase in resources or attention paid to expanding trade opportunities for American businesses. Nothing demonstrates this reality more vividly than the fact that the U.S. still maintains hundreds of AID officers and hundreds of contractors, while supporting only four full-time commercial officers in all of sub-Saharan Africa.

American Embassies have been given new directives to provide support for U.S. business interests, and many are doing an admirable job. We know this because we have had a firsthand opportunity to meet some of our best and brightest diplomats as they have worked diligently to support the Corporate Council's recent trade missions to Eritrea and Ethiopia, as well as our trade missions last year to Mozambique and Zimbabwe. Nevertheless, it is true that U.S. presence overseas is being cut, including commercial officers. This is not good news for American business and businesspeople as they face increased competition from their European and Asian counterparts who often enjoy strong and direct support from their governments.

A Government-Business Partnership

Mr. Chairman, much has been said about how U.S. government policies can be realigned to better support U.S. international trade and investment. I do not pretend to speak for American businesses in other parts of the world, but the members of the Corporate Council on Africa have some very definite ideas about how the situation might be improved regarding trade with sub-Saharan Africa. Nearly two years ago, our members met together for three days with senior officials of the Administration to discuss policy recommendations to improve commercial opportunities in Africa for the U.S. private sector. The conclusions of the group were compiled into a policy paper which was included in testimony before both the House and the Senate in the spring of 1995. Copies of that document are still circulating and many of its recommendations are still operative.

Mr. Chairman, what we propose is a partnership based on the simple concept of comparative advantage, with both the U.S. government and the American private sector doing what each is best suited to accomplish. The objective is to develop the African market, opening it to American trade and investment, and -- in the process -- empowering the African private sector and promoting real and sustainable economic development on the continent.

There is ample evidence that American business is interested in the arrangement. Those companies which are operating in Africa are doing well and profit margins in the region are among the highest in the world. Membership in the Corporate Council on Africa has sky-rocketed, from barely 6 companies three years ago to almost 100 today. Thirty-two American companies recently paid $3,000 to participate in our trade mission to Eritrea and Ethiopia -- an event unimaginable only a few years ago. U.S. investors have also discovered the continent. There are at least seven mutual funds dedicated to investing in Africa, while a number of emerging country funds have substantial holdings of Africa-based equities. There is no doubt that American business is interested in Africa.

Business Looks to Government

If the U.S. government-business partnership is to succeed where traditional development assistance has failed, much will depend on our ability to parlay the inherent advantages of both into an effective force for progress. While business has its strengths, it is also clear that business is not suited to carry out many functions which are natural to government. In particular, this means the U.S. government working with other governments -- in Africa and with other trading partners -- and international organizations to create the necessary environment for economic development and to level the playing field among potential competitors.

Perhaps no single initiative by the U.S. government would be as effective in improving the competitiveness of American companies than the successful negotiation of an international agreement which elevated the key elements of the Foreign Corrupt Practices Act into international practice. Steps within the EU to limit tax deductions for special payments are a welcome development, but until America's competitors are held to a similar high standard of conduct, they can continue to turn to bribery and other unethical practices to increase their "competitiveness" thereby abetting the cycles of corruption which plague many African countries.

The U.S. government should also continue to promote free trade arrangements, and the elimination of tariffs and other barriers consistent with WTO precepts. Regional efforts already underway in Africa -- especially SADC, COMESA, and ECOWAS -- to open trade and enlarge markets should be strongly encouraged, and the U.S. might consider establishing multilateral free trade agreements with them. The U.S., through AID or other organizations, should provide technical assistance in setting regional standards for road and rail transport, simplifying customs requirements, and easing regional financial transfers which would foster more rapid integration of the regional economies, making the markets larger, more open, and ultimately more attractive to both American and African business. Although an all-encompassing arrangement such as the OAU's African Economic Community might ultimately be realized, the existing regional groupings could serve as a catalyst for encouraging other states to make the necessary policy adjustments.

Within almost every African country, there is a substantial role for the various arms of the U.S. government -- Department of State, AID and USIA -- to play a meaningful role in creating an enabling environment to enhance the opportunities for the private sector. As I already noted, most African governments have "got the message," but they do need assistance in implementing the more open policies and developing their human resources if they are to make rapid progress. For example, American assistance could play a pivotal role in training customs services and personnel for more efficient operation. African central banks could use assistance in managing a national banking network, while outside expertise could be instrumental in facilitating privatization efforts and efficient stock exchanges. Many of these policies were originally encouraged by AID, and we should not be hesitant to take the next steps necessary to actually implement the resulting reforms

Besides continuing to encourage market-friendly policies, the Department of State and USIA have a unique opportunity to contribute to the enabling environment by advocating and facilitating where possible the stable, predictable and democratic political and legal systems upon which any sustainable economic development must be founded. American companies have a long-term stake in Africa's future, and only governments that enjoy the support of their populations can promise that necessary stability and opportunity.

Lastly, U.S. companies doing business in Africa look to their government to support them in relation to their host governments as well as against their international competitors. In most cases, American Ambassadors have been forthright in taking up cudgels for American companies in disputes with the local governments. However, many American companies presently doing business in Africa are apprehensive about discussions of economic sanctions against Nigeria. For them, the implications are clear: today's hot investment opportunity could be tomorrow's target for economic sanctions, based not on traditional standards of threatening the international peace but on its domestic policies.

Some Specific Recommendations

Mr. Chairman, it seems clear that major new programs for Africa are most unlikely at the present time. And the suggestions I have made recognize that fact. What we are proposing is generally a realignment of existing institutions and programs to capitalize on what we view as some encouraging signs within Africa that some of the basic preconditions for economic development -- based on an indigenous private sector and open markets -- are being realized. In short, we want to work closely with the U.S. government to load some real substance into the "Trade, not Aid" equation for Africa.

Mr. Chairman, members of the Corporate Council on Africa have been privileged to meet with individual members of the Committee to discuss how we might best accomplish this goal, and we would greatly welcome the opportunity to continue this dialogue as the Committee works toward legislation. While we remain open to new ideas, our experience indicates that the institutions already in place -- AID, the Export-Import Bank, OPIC, TDA -- have the potential to fill most of the gaps with relatively minor adjustments.

The Trade and Development Agency is singularly the most effective government agency most of our members have encountered in promoting trade with Africa. By providing support for feasibility studies and creating opportunities for African decision-makers to meet American manufacturers and service providers first-hand, TDA provides the "opening wedge" in helping American companies penetrate the African market. Its only limitation is its small staff and budget which could be upgraded, a minimal increase for a maximum impact.

However, the Export-Import Bank is missing many opportunities in Africa due to constraints on its ability to take what seem to be reasonable and prudent risks. Whereas foreign competitors can generally obtain advantageous financing terms from their governments, various U.S. policy decisions concerning the credit-worthiness of many African countries, legislative prohibitions, and various repayment issues preclude EXIM Bank from proving trade financing to a majority of African countries. One clear example of these lost opportunities for American exporters is the fact that of the seven African countries which demonstrated the strongest gains in GDP growth rates last year -- Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Malawi, Mali, and Togo -- EXIM was only able to provide services in two, Ghana and Kenya. The Committee may be interested to note that the Corporate Council and senior officials of the Bank have already established a Working Group to explore appropriate mechanisms to better integrate the views and experience of the private sector into the Bank's financing decisions. A key member of the Corporate Council on Africa, Mr. William Bucknam, will also be testifying before this Committee and will discuss the Export-Import Bank at greater length.

The Overseas Private Investment Corporation (OPIC) definitely provides a necessary function, since OPIC's political risk insurance is a fundamental part of the majority of American investments undertaken in Africa. OPIC, however, needs both staff and resources to meet the demands placed on it, much less expand its activities into areas of additional opportunity, such as meeting its targets for investments into Africa from smaller American companies. OPIC has the authorization to fund equity investments, but this has never been funded. Mixed credit programs to meet third country competition should also be considered.

Lastly, while we continue to support Secretary Christopher's directive to American embassies to promote the interests of U.S. business, we would also encourage additional personnel and resources to promote U.S. commercial interests in Africa. As I noted earlier, there are only four full-time Foreign Commercial Service officers assigned in all of sub-Saharan Africa. However valiant the efforts of our Ambassadors to mobilize their existing resources, we believe that the direct benefits to the American economy of promoting trade through a few more dedicated commercial offices would far outweigh any incremental costs.

A More Active Role for the USG?

Mr. Chairman, while some of the suggestions I have outlined above may require some rethinking, and in some cases some regulatory changes, they represent very little in terms of new expenditures or programs. The government-business partnership we envisage is not based on new programs. To the contrary, we would rather see more effective use of existing organizations than the introduction of new activities designed to encourage private sector functions but which frequently fail, or accomplish their missions at a cost much higher than normal market mechanisms.

In this context, we would recommend for the Committee's consideration a creative approach which would use the Internal Revenue Code to encourage equity investments in Africa. The Internal Revenue Code could be amended to provide for a tax credit for investments made in specific African countries, which could be stated by name, or descriptive condition (per capita income under a specific amount). The Code would specify the financial limits on the credit, as well as other conditions. Types of activities could be encouraged (agriculture) or excluded (arms manufacture). American jobs would be created as equipment for the plants is produced, and the African private sector would benefit from both new jobs and ancillary businesses. A major advantage of this concept is that it would create a strong capital flow into selected countries, while leaving the economic decisions in the hands of private sector investors. African countries would gain experience in competing for the private sector dollars. Most importantly, no new government bureaucracy would be required, since oversight mechanisms are already in place through IRS enforcement procedures.

Conclusion

Mr. Chairman, the members of the Corporate Council believe that Africa has the strong potential for a positive future. Africans themselves are increasingly taking their fate into their own hands as they turn to free markets and competition to lead them to prosperity. The American people have a strong and vested interest in their success.

For decades, American business has worked in Africa, building successful enterprises but falling short in building up an indigenous private sector which could achieve the critical mass to promote real development. Likewise, the American government has labored, together with its international partners, to foster economic growth but also without success. It is time that American business and government forge a stronger partnership, designed to create the enabling environments and open markets that will allow African governments to succeed in their reforms. The result will inevitably be new opportunities for trade and investment which will benefit both Africans and Americans.

Mr. Chairman, we very much appreciate this chance to offer our perspectives and share our experiences in Africa over the years. We look forward to continuing this dialogue with you and your Committee. Thank you.

Chairman CRANE. Thank you.

Mr. Bucknam, Clay Shaw wanted to be here to introduce you as a neighbor, but he conveyed his best. Unfortunately, he is locked into a conference at the present time. But, we welcome your testimony.

STATEMENT OF WILLIAM E. BUCKNAM, VICE PRESIDENT AND GENERAL COUNSEL, MWI CORP., DEERFIELD BEACH, FLORIDA

Mr. BUCKNAM. Thank you, Mr. Chairman, for giving me the opportunity to appear before the Subcommittee this afternoon. I would like to compliment both you and Mr. McDermott on the bipartisan initiative which raises the level of debate on important issues regarding African trade.

I have come today to discuss some of the practical as opposed to the theoretical aspects of opportunities and obstacles that currently exist in our trade with sub-Saharan Africa, as well as ways to expand our existing trade relations and to develop new trade opportunities in that region.

MWI Corp. was founded in 1926 in Deerfield Beach, FL, which does lie in the heart of Mr. Shaw's congressional district. We manufacture a variety of equipment, including the Hydraflo irrigation pump, also used for drainage, borehole drilling rigs, and a revolutionary new device that we call Pedalflo, that does away with the age-hold hand pump that is used for village water supplies, which can be operated by peddle power or solar power and deliver a pressurized and clean supply of drinking water in areas where there's never been any. We have three factories in Florida and one factory in Maiduguri, Nigeria.

We first looked to the African continent approximately 25 or 26 years ago as a significant potential market for our equipment. Today, we export worldwide 85 percent of what we manufacture, with a large amount of that going to Africa.

Although we are still categorized as a small business, we have significant experience with the Export-Import Bank. We received our first Ex-Im Bank commitment for work back in 1982 in Nigeria. By fiscal year 1992, we had been rated by Ex-Im Bank as the number one small business user of Ex-Im Bank financing nationwide, as well as the number 13 user overall of Ex-Im Bank financing.

We have no doubt that significant trade opportunities currently exist for our equipment in sub-Saharan Africa. Unfortunately, in 37 out of 48 of the countries in the region, Ex-Im Bank is now completely closed for business in the public sector.

I have taken the liberty of dissecting the country limitation schedule issued twice a year by Ex-Im Bank, and creating one for sub-Saharan Africa, which I have attached as exhibit 1 to my statement. You can see, country by country, where Ex-Im Bank is open and where Ex-Im Bank is closed.

Short and medium term public sector cover is available in two of the countries, and Ex-Im Bank is now open in all programs for public sector cover in nine of the countries in the region.

The decision as to whether Ex-Im Bank should be open or closed in a particular market, and if so, what exposure fee to charge, is based on credit ratings issued by the Interagency Credit Risk Assessment System, also known as ICRAS, chaired by the Office of Management and Budget. Members of this interagency group include the Departments of State, Treasury, Commerce, Defense and Agriculture, as well as the Overseas Private Investment Corp. and Ex-Im Bank, and there are observers from three other agencies as well.

Ex-Im Bank prepares risk assessment papers which are circulated. The proposed ratings are reviewed, and if there is a disagreement, a meeting is held. OMB ultimately, however, decides what the rating is going to be. Unfortunately, neither independent parties, U.S. exporters, or the subject countries are allowed to have any input into this particular system.

The difficulty that American companies have in penetrating new markets in sub-Saharan Africa is best exemplified by the current situation in Cote d'Ivoire. We recently received a delegation of Cote d'Ivoire government officials at our factory in Deerfield Beach, which included the Ambassador and leading representatives from the private sector. This meeting had been arranged by a Washington-based firm called Alexis International.

Members of the delegation were clearly interested in all of our products. They wanted to become self-sufficient in food production, and they want to be able to provide clean drinking water to people throughout their country.

The most effective way for an American company to determine the depth of a potential market before deciding whether it is possible and feasible to establish a manufacturing facility is to be able to sell its goods in a particular market. Substantial sales can only be made with the support of the Export-Import Bank. Unfortunately, today, notwithstanding dramatic economic gains, Ex-Im Bank remains completely off cover in Cote d'Ivoire.

In a recent report by the World Bank, they were quite optimistic about Cote d'Ivoire, talking about their structural adjustment program, privatization, trade reform, agricultural reform, and the fact that last year the Ivorian economy achieved an astounding, staggering rate of growth of 7 percent.

Unfortunately, notwithstanding their best efforts, Cote d'Ivoire government officials, including the ambassador, were unable to find out why Ex-Im Bank remains off cover. One Ex-Im official says that the Ivorian economy is the best managed in sub-Saharan Africa. Another member of ICRAS apparently feels the debt load is still too high. And then another Ex-Im Bank official expressed his own opinion, that there just probably is not enough U.S. business interest in Cote d'Ivoire to justify going on cover.

Well, all of this leads to three or four general conclusions and recommendations. If we are sincerely interested in increasing U.S. trade in sub-Saharan Africa, the sine qua non for doing that is the availability of Ex-Im Bank financing. It is intolerable that in 37 out of 48 sub-Saharan African countries, U.S. exporters continue to be put at a decided competitive disadvantage by this credit rating system, a system that we are not allowed to have any input into.

Second, the congressional mandate that before Ex-Im Bank opens in a particular country that there be a "reasonable assurance of repayment" really needs to be modified in order to permit Ex-

Im support in more sub-Saharan countries, just as it was in the Caribbean Basin, just as it was more recently in Russia.

Ex-Im Bank needs to be more aggressive, at least in two countries where they are closed in the public sector but open in the private sector. They should identify and qualify one or two commercial banks to take on the foreign exchange risk and onlend to the government and to open up the opportunity for U.S. exports in those two countries, which are Gabon and Kenya.

Last, and not the least important, and apropos of part of Mr. McDermott's recommendation, there needs to be someone at the director level who takes on the responsibility of sitting down with the ambassador from Cote d'Ivoire, or from whatever country, and review, in a general way—not necessarily all the specifics—as to why the decision was made not to go on cover, and to identify for these countries the specific economic targets that need to be achieved in order for there to be cover. This has been done by Ex-Im Bank in the case of Latin America. There has been one director for the last 12 or 13 years that has taken an interest in the Latin American region. Africa does not have an advocate.

I again thank the Subcommittee for the opportunity to make these comments today.

[The prepared statement and attachment follow:]

STATEMENT OF
WILLIAM E. BUCKNAM
VICE PRESIDENT & GENERAL COUNSEL
MWI CORPORATION

Honorable Chairman:

Thank you for giving me the opportunity to appear before the Subcommittee this afternoon to discuss opportunities and obstacles which currently exist in our trade with Sub-Saharan Africa, as well as ways to expand our existing trade relations and to develop new trade opportunities in the region.

MWI Corporation (formerly, M&W Pump Corporation), was founded in 1926 by the Eller family in Deerfield Beach, Florida, which lies in the heart of Mr. Shaw's Congressional District. We manufacture a variety of equipment including the patented *Hydraflo* water pumps for irrigation and drainage, borehole drilling rigs and a revolutionary new patented device called *Pedalflo* which can be operated by either pedal power or solar power and deliver a reliable supply of pressurized and clean drinking water in areas where potable water has never been available. Today, we operate three factories and a rental facility in Florida, as well as an assembly plant in Maiduguri, Nigeria.

MWI first looked to the African continent as a significant potential market in the early 1970's. Today, we export worldwide over 85% of what we manufacture in Florida with a significant amount of our exports going to Africa. We have equipment in operation in six African countries and we have ongoing marketing activities in twelve African countries at the present time.

EXIMBANK

Even though we are a small business, we have significant experience with the Export-Import Bank of the United States ("Eximbank"). We received our first Eximbank commitment in 1982 for Nigeria. In FY'92 we were rated by Eximbank as the number one small business user of Exim financing in the country as well as the number 13 user overall nationwide of Eximbank financing, just behind Asea Brown Boveri, Inc. and Overseas Bechtel, Inc. Today, we have over $300 million in outstanding Exim Letters of Interest and we hope to finalize $60-$80 million of this business in the near future.

We have no doubt that significant trade opportunities currently exist for our equipment thoughout Sub-Saharan Africa. Unfortunately, in 37 out of 48 of the countries in the region, Eximbank is now completely off cover and closed for public sector transactions. Short and medium terms public sector cover is currently available in two of the countries, and Eximbank is now open in all programs for public sector cover in only nine Sub-Saharan countries. [1]

I.C.R.A.S.

The decision whether Eximbank should be open in a particular market and, if so, what exposure fee to charge, is based on credit ratings issued by an interagency group known as the Interagency Credit Risk Assessment System ("I.C.R.A.S."), which is chaired by the Office Of Management and Budget ("O.M.B.") Members of this interagency group include the Departments of State, Treasury, Commerce, Defense and Agriculture; the Overseas Private Investment Corporation and Eximbank. Observers from the National Security Council, the National Economic Council, the Council of Economic Advisers and the Federal Reserve Bank also participate.

Eximbank prepares risk assessment papers for sovereign risk and private sector transactions in particular countries and these papers are distributed to I.C.R.A.S. members by O.M.B. The proposed ratings are reviewed and if there is disagreement a meeting is held. O.M.B., however, ultimately decides what the rating should be. Neither interested U.S. exporters nor the subject countries are permitted to participate in the rating process. The actual ratings are not made public and are considered to be confidential information.

1. See attached Exhibit One for the current Eximbank Country Limitation Schedule for public sector transactions in Sub-Saharan Countries.

The Cote d'Ivoire Dilemma

The difficulties American companies have in penetrating new markets in Sub-Saharan Africa is best exemplified by the current situation in Cote d'Ivoire. We recently received a delegation of Cote d'Ivoire government officials at our factory in Deerfield Beach, including the Ambassador to the United States and leading representatives from the private sector.[2] The members of the delegation were clearly interested in our products. After all, what is more important than acquiring pumping equipment to become self-sufficient in food production or equipment to provide clean drinking water which would, undoubtedly, reduce the infant mortality rate dramatically.[3] We also sensed that the members of the delegation were anxious to aquire the latest American technology and, most importantly, to break the commercial bonds of their colonial past.

The most effective way for any American company to determine the depth of a potential market before deciding whether to establish a manufacturing facility in a particular country is to sell its goods in that market. Substantial sales can only be made with the support of the Export-Import Bank. Today, notwithstanding dramatic economic gains, Eximbank remains completely off cover in Cote I'voire.

In a recent report, the World Bank was quite optimistic about Cote d'Ivoire: Their structural adjustment program is on track with both the International Monetary Fund and the World Bank; since the devaluation of the CFA in 1994, privatization, trade reform and agricultural reform are also on track. The Ivorian public debt has been rescheduled with the Paris Club and they are currently negotiating the rescheduling of their commercial debt with the London Club. Last year, the Ivorian economy achieved an astounding growth rate of 7%.

The precise reason why Eximbank remains off cover today in Cote d'Ivoire is unclear. While one Exim official believes that the Ivorian economy is the best one managed in Sub-Saharan Africa, another member of I.C.R.A.S. apparently feels that the debt load is still too high and places too much demand on future income. Another Eximbank official recently opined that there is "not enough U.S. business interest in Cote d'Ivoire to justify reopening at this time".[4]

---

2. This meeting was organized by Alexis International, Inc. of Washington, D.C. which had also organized a recent series of major trade and investment conferences for Cote d'Ivoire in San Francisco and Tampa where over 200 interested U.S. companies had participated.

3. The water crisis is a significant worldwide problem. In a 1987 report, the World Bank noted that nearly 1.8 billion people are still in need of safe drinking water. In Africa, however, the bank noted that the "prognosis is less good" since no more than half of the rural population will have an adequate supply of clean drinking water by the end of the century.

4. This perceived "lack of interest" would certainly not be sufficient to justify the continued off cover policy of Eximbank. In any case, it is clear from the trade and investment conferences held by Alexis International, Inc., and the follow-up trade mission scheduled for later this year, that there is significant U.S. business interest in the Ivorian market. In any case, Eximbank has no way to verify actual exporter interest in a particular country in which they are closed for business. Once an exporter reads Exim's published Country Limitation Schedule and learns that Exim is closed in a particular country, few exporters would then call Exim to express interest in the country.

Conclusions and Recommendations

In order to remove some of the obstacles which currently exist and to create new trade opportunities in Sub-Saharan Africa, the following steps should be taken:

1. At the present time, the Export-Import Bank is completely closed for public sector business in 37 of the 48 Sub-Saharan African Countries. U.S. exporters continue to be put at a decided competitive disadvantage by a credit rating system which is not transparent and which should be reviewed and revised to allow critical input from independent sources as well as interested exporters and the subject countries.

2. The congressional mandate that before Eximbank opens in a particular country that there be a "reasonable assurance of repayment" needs to be modified in order to permit Exim support in more Sub-Saharan countries, just as it was for the Caribbean Basin Initiative and, more recently, for Russia.

3. In two countries where Eximbank is closed in the public sector but open in the private sector, *e.g.*, Gabon and Kenya, Eximbank should qualify one or more local commercial banks, and provide lines of credit which will enable the banks to onlend to their government in order to finance U.S. exports of goods and services. Such creditworthy commercial banks would then be responsible for servicing the foreign debt.

EXHIBIT ONE
EX-IM BANK COUNTRY LIMITATION SCHEDULE
SUB-SAHARAN AFRICAN COUNTRIES
PUBLIC SECTOR
EFFECTIVE MAY 1, 1996

ANGOLA:	NO COVER
BENIN:	OPEN SHORT AND MEDIUM TERM
BOTSWANA:	OPEN ALL PROGRAMS
BURKINA FASO:	NO COVER
BURUNDI:	NO COVER
CAMEROON:	NO COVER
CAPE VERDE ISLAND:	NO COVER
CENTRAL AFRICAN REP:	NO COVER
CHAD:	NO COVER
COMOROS:	NO COVER
CONGO:	NO COVER
COTE D'IVOIRE:	NO COVER
DJIBOUTI:	NO COVER
EQUATORIAL GUINEA:	NO COVER
ERITREA:	NO COVER
ETHIOPIA:	NO COVER
GABON:	NO COVER*
GAMBIA:	NO COVER
GHANA:	OPEN ALL PROGRAMS
GUINEA:	NO COVER
GUINEA-BISSAU:	NO COVER
KENYA:	NO COVER*
LESOTHO:	OPEN ALL PROGRAMS
LIBERIA:	NO COVER
MADAGASCAR:	NO COVER
MALAWI:	NO COVER
MALI:	NO COVER
MAURITANIA:	NO COVER
MAURITIUS:	OPEN ALL PROGRAMS
MOZAMBIQUE:	NO COVER
NAMIBIA:	OPEN ALL PROGRAMS
NIGER:	NO COVER
NIGERIA:	NO COVER**
RWANDA:	NO COVER
SAO TOME & PRINCIPE:	NO COVER
SENEGAL:	NO COVER
SEYCHELLES:	OPEN ALL PROGRAMS
SIERRE LEONE:	NO COVER
SOMALIA:	NO COVER
SOUTH AFRICA:	OPEN ALL PROGRAMS
SUDAN:	NO COVER**
SWAZILAND:	OPEN ALL PROGRAMS
TANZANIA:	NO COVER
TOGO:	NO COVER
UGANDA:	OPEN SHORT AND MEDIUM TERM
ZAIRE:	NO COVER
ZAMBIA:	NO COVER
ZIMBABWE:	OPEN ALL PROGRAMS

*ALTHOUGH CLOSED IN THE PUBLIC SECTOR, EXIM IS EITHER PARTLY OR FULLY OPEN TO THE PRIVATE SECTOR.
**SUPPORT LEGALLY PROHIBITED.

Chairman CRANE. Thank you, Mr. Bucknam.

Next is Mr. Foote. I trust I am pronouncing it right, "foot" and not "foot-ee." After my mistake with Mr. Lande, I just wanted to make sure.

STATEMENT OF MELVIN P. FOOTE, EXECUTIVE DIRECTOR, CONSTITUENCY FOR AFRICA

Mr. FOOTE. Thank you very much.

Mr. Chairman, distinguished Members of the Subcommittee on Trade of the Ways and Means Committee, on behalf of Ambassador Andrew Young and the Constituency for Africa's board of directors, it is quite an honor for me to appear before you today.

I also want to use this opportunity to thank you and this important Subcommittee for your continued efforts to consider the ways and means for the United States to expand its trade relationship with sub-Saharan African countries. This surely makes good sense for America, which as we rapidly move toward the 21st century, is challenged to find new markets for its products. It also makes good sense for Africa as well, which needs access to American capital, American technologies, and American goods and services, as it strives to improve the standard of living for the 800 million people residing in the region. This is clearly a "win-win" opportunity for Americans and Africans.

The CFA, Constituency for Africa, is a membership coalition of organizations, groups and individuals with interest in Africa. Founded in 1990, CFA's mission is to educate the American public about Africa and African issues, and to strengthen linkages and co-operation between and among American organizations, groups and companies and counterpart institutions and organizations in Africa. A sizeable portion of the CFA is either now doing business or interested in doing business in Africa.

I have a number of practical suggestions that I hope you will consider as a way of strengthening America's trade relationship with Africa. These suggestions fall into three basic categories: U.S. policy formulation, U.S. programs in Africa, and programs to be carried out in the United States.

Let me preface these suggestions by stating that many of the suggestions and proposals put forth by Representative McDermott are, indeed, encouraging and deserving of serious consideration.

Any reservations I have concerning the McDermott proposals are in the area of funding. Will the necessary resources required to finance these initiatives be taken from already meager resources targeted at child survival and emergency assistance programs in Africa, a sort of reverse "Robin Hood"?

Under U.S. policy formulation, certainly Ambassador Moose talked about debt relief. While a number of African countries have made impressive strides over the past decade toward democratic governments and free market economies, still even these countries are finding that they are merely "treading water." We have to do something to ease the burden of debt.

On the programs in Africa, the United States should promote the regional integration of African economies. As I am sure you are aware, one of the legacies of colonialism was the creation of the more than 50 countries which exists today, with different economic and political structures and policies. Many of the conflicts and economic problems facing Africa can be easily traced to the way boundaries have been drawn.

Much progress is now being made in integrating the Southern African market through SADC. Other regional blocks are in various stages of development in west, east, central and northern Africa. What turned out to be Ronald Brown's final trip to Africa, whereas the convened regional business forums, to me is a move in the right direction.

The United States should also work with African countries to remove trade barriers and target major resources at helping to build and improve infrastructure, i.e., port facilities, roads, warehouses, telecommunications systems and the like in Africa. The new Leland initiative connecting 20 African countries to the Internet system is certainly promising. U.S. firms should be given encouragement to participate in these major projects.

The United States should expand investment guarantee programs to more countries in Africa. Many of these countries are of a much better risk than many of the Eastern European countries, which now have guarantee programs in place.

In terms of programs in the United States—and this addresses some of the concerns that Congressman Rangel raised—the American public overall, and the business community in particular, remain uneducated, undereducated or miseducated about Africa and about business opportunities on the continent. In many respects, this poses the greatest challenge to expanding trade with Africa. The way Africa has been portrayed in the U.S. media and in the Congress has only served to dissuade Americans from taking an active interest in Africa and has discouraged the American private sector from looking at Africa as a place to do business.

The U.S. Government, led by the Department of Commerce, and in close partnership with nonprofit organizations such as the Constituency for Africa, the Corporate Council on Africa, the U.S.-Africa Chamber of Commerce and other quality organizations promoting trade with Africa, should take the lead in rectifying this situation.

I would estimate that if $3 million per year for 5 years, say $15 million, could be made available for this purpose, to produce quality educational materials, to organize and sponsor seminars, workshops and other educational events in target cities and in selected regions around the country, and to support a variety of trade promotion activities, that there will be a major shift in the attitudes and activities of the American business community, especially the small and medium sized firms which more readily match up with business concerns in Africa.

The U.S. Government could also be helpful by assisting African embassies in the United States in their trade promotion activities. Many of these embassies are completely dysfunctional as outposts for business and trade with their countries. They lack the necessary equipment, supplies, promotional materials, travel budgets and skilled promotion officers to adequately promote their countries.

Perhaps some of the major computer and software firms can be given incentives to donate computer equipment and supplies and to train African embassy staffs in their usage. Perhaps some of the U.S. air carriers and major tour operators could be encouraged to assist African embassies in their tourist promotion programs.

If funding could be identified, CFA certainly would be prepared to take a leading role in organizing such support. CFA is also positioned to assist the African embassies to take advantage of the numerous national meetings of African American organizations throughout the summer and early fall months. These meetings represent prime opportunities for African embassies to exhibit, network, and to share information about their countries with opinion makers and decisionmakers in business and commerce, technology, education and in government.

Thank you again for this opportunity to share some ideas on ways and means for the United States to expand its trade activities with Africa. Thank you.

[The prepared statement follows:]

CONSTITUENCY FOR AFRICA

HEARING ON U.S. TRADE WITH SUB-SAHARAN AFRICA
Committee on Ways and Means
Subcommittee on Trade

by

Melvin P. Foote
Executive Director
Constituency for Africa

August 1, 1996

Longworth House Office Building
Washington, D.C.

Mr. Chairman, Distinguished Members of the Subcommittee on Trade of the Committee on Ways and Means, on behalf of Ambassador Andrew Young and the Constituency for Africa's Board of Directors, it is quite an honor for me to appear before you today. I also want to use this opportunity to thank you and this important Subcommittee for your continued efforts to consider the "ways and means" for the United States to expand it's trade relationship with Sub-Saharan African countries. This surely makes good sense for America which as we rapidly move towards the 21st century, is challenged to find new markets for it's products. It also makes good sense for Africa as well, which needs access to American capital, American technologies and American goods and services, as it strives to improve the standard of living for the 800 million people residing in the region. This is clearly a "win-win" opportunity for Americans and Africans.

The Constituency for Africa (CFA), is a membership coalition of organizations, groups and individuals with interest in Africa. Founded in 1990, CFA's mission is to educate the American public about Africa and African issues, and to strengthen linkages and cooperation between and among American organizations, groups and companies and counter-part institutions and organizations in Africa. A sizable portion of the Constituency for Africa is either now doing business or interested in doing business with Africa.

The tragic airplane crash which took the life of the Secretary of Commerce, Ronald H. Brown, and so many others earlier this year, is truly a tremendous blow for those of us promoting a stronger United States trade relationship with Africa. Secretary Brown was in every respect a "pioneer" with the vision, charisma and ability to transform the American business community's view of Africa and opportunities on the continent. I believe that the fact that so many are today exploring opportunities to do business in Africa, is a true testament to the legacy of the late and great Ronald H. Brown. Certainly CFA will do it's part to continue the great work that Secretary Brown leaves behind.

I have a number of practical ideas and suggestions that I hope you will consider as a way of strengthening America's trade relationship with Africa. These suggestions fall into three basic categories: U.S. policy formulation; U.S. programs in Africa; and programs in the U.S. Let me preface these suggestions by stating that many of the suggestions and proposals put forth by Representative Jim McDermott, are indeed encouraging and deserving of serious consideration. Any reservations I have concerning the McDermott proposals are in the area of funding. Will the necessary resources required to finance these initiatives, be taken from already meager resources targeted at child survival and emergency assistance programs in Africa. Are we "taking from the poor to give to the rich". Otherwise, the establishment of a U.S. - Africa Free Trade Zone; the creation of a U.S. - Africa Economic Cooperation Forum; a $300 million Partnership program to support privately managed equity, and infrastructure funds to leverage private financing for small and moderate sized African businesses, are all clearly moving in the right direction. To these I offer the following suggestions.

I. U.S. Policy Formulation:

-- Debt Relief: While a number of African countries have made impressive strides over the past decade, towards democratic governments and free market economies, still even these countries are finding that they are merely "treading water". While much of this debt is clearly rooted in the colonial and post colonial period economic policies and later in the policies and politics of the cold war -- it is obvious and clear that it is now in all of our interest to relieve these countries (especially those that are deemed on the right course) of this tremendous burden. The U.S. should use it's good auspices and it's leverage with the Europeans, and with the World Bank and other multi-lateral financial institutions, to help create an enabling environment for the private sector in Africa, and to address this crucial problem of the debt.

II. Programs in Africa:

-- The U.S. should promote the regional integration of African economies. As I am sure you are aware, one of the legacies of colonialism was the creation of the more than 50 countries which exists today, with different economic and political structures and policies. Many of the conflicts and economic problems facing Africa, can be easily traced to the way boundries have been drawn.

Much progress is now being made in integrating the southern Africa market through SADC (The Southern African Community). Other regional blocks are in various stages of development in west, east central and northern Africa. What turned out to be Ron Brown's final trip to Africa, whereas he convened regional business forums, is the strategy we ought to pursue.

-- The U.S. should also work with African countries to remove trade barriers and target major resources at helping to build and improve infrastructure, i.e. port facilities, roads, warehouses, telecommunications systems, and the like in Africa. The new Leland initiative (connecting 20 African countries to the Internet system) is promising. U.S. firms should be given encouragement to participate in these major projects.

-- The U.S. should expand investment guarantee programs to more countries in Africa. Many of these countries are of a much better risk than many of the eastern European countries, which now have guarantee programs in place.

III. Programs in the U.S.:

-- The American public overall, and the business community in particular, remain uneducated, undereducated or miseducated about Africa and about business opportunities on the continent. In many respects, this poses the greatest challenge to expanding trade with Africa. The way Africa has been portrayed in the U.S. media, and in the Congress, has only served to dissuade Americans from taking an active interest in Africa and has discouraged the American private sector from looking at Africa as a place that they can do business.

The U.S. government, led by the Department of Commerce, and in close partnership with non-profit organizations such as the Constituency for Africa, the Corporate Council on Africa, the U.S./Africa Chamber of Commerce and other quality organizations promoting trade with Africa, should take the lead in rectifying this situation. I would estimate that if $3 million per year for 5 years ($15 million), could be made available for this purpose, to produce quality educational materials, to organize and sponsor seminars, workshops and other educational events in target cities and in selected regions around the country, and to support a variety of trade promotion activities; that there will be a major shift in the attitudes and activities of the American business community, especially among small and medium-sized firms which more readily match up with business concerns in Africa.

-- The U.S. government could also be helpful by assisting African embassies in the U.S. in their trade promotion activities. Many of these embassies are completely dysfunctional as outposts for business and trade with their countries. They lack the neccessary equipment, supplies, promotional materials, travel budgets, and skilled promotion officers, to adequate promote their countries.

Perhaps some of our major computer and software firms can be given incentives to donate computer equipment and supplies, and to train African embassy staffs in their usage. Perhaps some of the U.S. air carriers and major tour operators, could be encouraged to assist African embassies in their tourist promotion programs. If funding could be identified, CFA would be prepared to take a leading role in organizing such support. CFA is also positioned to assist the African embassies to take advantage of the numerous national meetings of African-American organizations throughout the summer and early fall months. These meetings represent prime opportunities for African embassies to exhibit, network and to share information about their countries with opinion-makers and decision-makers in business and commerce, technology, education and in government.

Thank you again for this opportunity to share some ideas on "ways and means" for the U.S. to expand it's trade activities with Africa.

Chairman CRANE. Thank you, Mr. Foote.
Mr. Tilton.

STATEMENT OF IMANI COUNTESS, EXECUTIVE DIRECTOR, WASHINGTON OFFICE ON AFRICA; AS PRESENTED BY DOUGLAS TILTON, ASSOCIATE DIRECTOR FOR COMMUNICATIONS, WASHINGTON OFFICE ON AFRICA

Mr. TILTON. Good afternoon. My name is Douglas Tilton, and I am the associate director of communications for the Washington Office on Africa. I am testifying this afternoon in place of the Washington Office on Africa's executive director, Imani Countess, who is regrettably out of town today.

On behalf of our staff, I would like to thank the chairperson and the Members of this Subcommittee for the opportunity to make a statement on U.S. trade with sub-Saharan Africa. I would also invite members to review the more detailed statement that we have submitted for the record.

The Washington Office on Africa is an advocacy organization supported by church, labor and civil rights groups. Before 1990, our work focused on accelerating the end of white minority rule in Southern Africa. More recently we have taken up issues affecting the continent as a whole. We aim, in part, to familiarize the Washington policy community with the perspectives of opinion leaders and grassroots organizations within Africa.

Let me say first how much we appreciate the Subcommittee's decision to consider this important subject and to solicit a wide range of opinion. We hope that these hearings will ultimately generate concrete measures to increase mutually beneficial trade between the United States and African countries. We consider commercial ties to be one crucial component of good relations between the people of the United States and of Africa.

However, they are only one component. The United States should seek to construct a comprehensive and integrated Africa policy. Trade, investment aid, and debt reduction are all essential components of such a policy. Trade enhancement initiatives cannot take the place of a well-structured and targeted development assistance program.

Trade and aid policies should be seen as complementary rather than mutually exclusive options. The effectiveness of both will also be affected by the adequacy of measures to address the serious problem of indebtedness of African states. Potential programs should be assessed in relationship to existing ones. There should be procedures for results-based evaluation of both current and future programs.

Aid programs should not be viewed as a form of "welfare" but should promote public investment in social, physical and economic infrastructure. Such investment should be designed to maximize access to public goods and services and to build productive capacities.

We strongly favor additional measures to increase U.S. trade with and investment in Africa. We applaud the efforts of this Subcommittee, the Office of the U.S. Trade Representative, and Representative McDermott and his colleagues on the African Trade and Investment Caucus. We welcome moves to strengthen existing

U.S. Government programs, to improve their level of coordination and visibility, and to explore new mechanisms to encourage trade.

At the same time, we believe that the details of emerging policy proposals must be more completely elaborated. For example, we agree that trade and investment programs and other economic cooperation initiatives must be conditioned on transparent standards applied to recipient governments. However, we are eager to ensure that such conditionalities are developed in an open debate, rather than being imposed by donors according to a set of rigid economic prescriptions.

Likewise, we expect the Congress would wish to review the experience of the 10 enterprise funds created for Eastern Europe and the former Soviet Union before establishing any new, privately managed equity fund to leverage investment capital for African nations.

Funds should not be transferred from existing programs without a prior evaluation comparing the effectiveness of their current use with the projected effects of their redeployment.

At this juncture, it might be most appropriate to allocate funds to facilitate the initial planning process. This should involve extensive consultation with African states, representatives of African civil society, multilateral agencies, and expert advisers. This type of holistic review could lay the foundation for a thoughtful, balanced, and comprehensive realignment of our economic relations with Africa.

Thank you.

[The prepared statement and attachments follow:]

Hearing: US Trade with Sub-Saharan Africa
Subcommittee on Trade, Committee on Ways and Means

July 16, 1996

Submitted by
Washington Office on Africa
Imani Countess, Executive Director

On behalf of the Washington Office on Africa, I would like to thank the Chairperson and the members of the Subcommittee for this opportunity to make a statement on US trade with Sub-Saharan Africa. We appreciate the attention given to this important subject by the staff and members of the Subcommittee and your efforts to solicit a wide range of opinion. We hope that these hearings will generate concrete measures to increase mutually beneficial trade between the United States and African countries, as we consider commercial ties to be one crucial component of good relations between the people of the United States and of Africa.

The Washington Office on Africa (WOA) is an advocacy organization working in favor of grassroots African interests with the support of church, trade union, and civil rights groups. Its educational affiliate is the Africa Policy Information Center (APIC), formerly the Washington Office on Africa Educational Fund. Before 1990, both organizations focused primarily on the issues of freedom from white-minority rule in Southern Africa. Since then, WOA and APIC have taken on a wider range of issues affecting the continent as a whole. One of our central objectives is to foster awareness within the Washington policy community of the creative debates taking place among African opinion-leaders and grassroots groups.

Neither organization is an operational agency engaged in development, relief or other projects in the field. Nor do we receive government funding. We are in contact with a wide range of groups such as the All Africa Conference of Churches and other national and regional organizations which comprise civil society across the continent. We share information and join in coalitions around a range of issues with US and international organizations concerned with human rights, sustainable development, democratization, and other issues relevant to grassroots African interests.

APIC has published two background papers particularly relevant to the topic of this hearing, namely *The US and Africa's Trade: Prospects for Partnership* and *Thinking Regionally: Priorities for US Policy toward Africa* (copies of which are available from the Africa Policy Information Center, 110 Maryland Avenue, NE, Suite 509, Washington, D.C. 20002 or on the World Wide Web at: http://www.igc.org/apic/index.shtml).

We have followed with interest the productive discussions on US economic relations with Africa catalyzed by the congressional mandate in the 1994 act approving the Uruguay Round Agreements. We prepared a written reaction to the first annual report presented by the Office of the US Trade Representative in compliance with this mandate. That letter, addressed to the co-chairs of the newly-formed Africa Trade and Investment Caucus, was endorsed by 17 other organizations. It is included in this statement (below); we think the points made therein are still of relevance as the Subcommittee continues to develop its own proposals.

In this testimony I would like to concentrate on several particular points, in the context of preliminary proposals which have emerged from the Africa Trade and Investment Caucus[1]. We recognize that these proposals are still evolving, and intend our remarks to be a constructive contribution to that debate as the Caucus and the Subcommittee move toward formulation of specific legislative measures. I will address first the general framework within which trade relations with Africa is to be considered, and then make some comments and raise some questions about particular aspects of the proposals being advanced within the Africa Trade and Investment Caucus.

I. Trade and aid policies should be seen as complementary, rather than as mutually exclusive options applied to different sets of countries. The effectiveness of both will also be significantly affected by the adequacy of measures to address the serious problem of indebtedness of African states. Proposed new programs should be considered in relationship to each other, and evaluated in terms of their potential contribution to sustainable development. There should be procedures for results-based evaluation of both existing and future programs, regardless of

[1]Rep. Jim McDermott, "Growth and Opportunity in Africa: The End of Dependency," Remarks to the Overseas Development Council Conference on African Economic Recovery, Washington, D.C., June 12, 1996.

whether they are implemented primarily through governmental agencies, the private sector, or the voluntary sector.

The issue of what policies are most effective in promoting sustainable development that can benefit the majority of Africa's people is complex. There are no magic formulas to ensure success. That is why we are concerned to ensure that the paradigm for US policy integrates a range of components, without portraying sustainable development and private sector approaches as contradictory alternatives. In our view, sustainable development remains the goal. This means "improving the quality of human life while living within the capacity of supporting ecosystems."[2] It includes economic growth, social equity, and the preservation of environmental capital to protect the options of future generations. These are goals and values which apply equally to the least developed and the most industrialized countries.[3]

Aid Still Essential

In our view "aid" should not be conceived as "charity" or "welfare," nor restricted to humanitarian relief. Aid is more properly seen as a counterpart to government support and subsidies for private sector initiatives. It should represent public investment in sustainable development to produce long-term benefits for both "donor" and "recipient" countries. Current aid programs, both bilateral and multilateral, are in serious need of results-based evaluation and reform to ensure that limited funds are well-used for the intended objectives. But whatever the current political climate, the need is for more aid, not less. US foreign assistance levels are already disgracefully low; at 0.1% of GNP, they are the lowest among the OECD countries. Opinion polls show that these figures are also far below the level that the US public supports—once they know the actual amount which the United States spends on foreign assistance. Short-sighted and indiscriminate cuts in aid programs not only endanger human lives today, but also seriously diminish the chances for future economic growth in Africa and other regions—growth which could benefit the United States, too.

USAID, the World Bank, and other agencies which have drawn criticism from African grassroots groups and others for their past performance, are now demonstrating a growing responsiveness to pressure for reform. This increased openness presents unique opportunities for bold new initiatives. In considering the past record and future potential of these institutions, it would be unfair to evaluate previous programs against goals of sustainable development when they were in fact aimed largely at unrelated objectives. Historically, much bilateral aid has been devoted to the pursuit of geostrategic objectives or the short-term political advantage of client regimes, rather than to improving the quality of life for ordinary people in recipient countries. Much multilateral aid, as internal World Bank studies acknowledge, was marred by the unfounded assumption that macroeconomic stabilization was in itself sufficient to set countries on the path of growth and poverty alleviation.[4]

Trade and Investment Essential, but not Sufficient

Private sector trade and investment is a necessary component of any sustainable development strategy, and government subsidies to facilitate the acceleration of such private sector activities are amply justified. The extent of US trade with Africa that already exists is far greater than is commonly assumed. Thus, to give only two examples, US trade with Southern Africa is roughly comparable to that of the US with the former Soviet Union; US trade with West Africa is 50% more than US trade with Eastern Europe. The potential is much greater; investment in facilitating it can pay off for both the US and Africa.

Even in the case of the most advanced African countries, however, private sector trade and investment is not a sufficient substitute for adequate and sustainable levels of aid. The diverse experiences of East and Southeast Asian countries show that taking advantage of market opportunities requires not only liberalization and export orientation, but also massive investments in state capacity

---

[2] David Reed, ed., *Structural Adjustment, the Environment and Sustainable Development* (London: World Wildlife Fund/Earthscan, 1996), p. 33.

[3] *Toward A Moral Economy: Responses to Poverty in the North and South* (Toronto: Inter-Church Coalition on Africa, 1996).

[4] World Bank, *Taking Action for Poverty Reduction in Sub-Saharan Africa: Report of an Africa Region Task Force* (Report No. 15575-AFR, May 1, 1996).

and human resource development.[5] This does not mean that the prospects for such economic expansion in Africa are hopeless. It does, however, imply a long time frame. Creating the basis for such development requires concurrent action to promote investment in social and physical infrastructure through targeted foreign assistance, facilitate trade and investment, and address the pressing issue of debt overhang. It also means involving multilateral institutions, national governments, the private sector, and the voluntary sector in ongoing dialogue about their appropriate contributions.

Debt Reduction Prerequisite for Effective Trade Expansion

Among the issues of critical importance for the success of aid and trade programs is the status of Africa's debt (see point 2 in letter below, p. 8). The details of initiatives under way for reduction of Africa's debt, both bilateral and multilateral, are most appropriately addressed elsewhere than in this testimony. It is clear, however, that failure to resolve this issue could undermine the prospects for new investment, aid initiatives or trade-related credits, even for many countries that have been most consistent in implementing economic reform packages.

New Paradigm Requires Debate

We applaud the Subcommittee's recognition of the need to "initiate and pursue a mutually beneficial trade relationship with the countries of Sub-Saharan Africa.[6]" The success of this endeavor will depend upon our ability to look beyond the narrow national security and geopolitical strategic concerns which shaped policies of the Cold War era and to implement a paradigm shift in our relations with Africa. US policy must recognize Africa's economic potential and promote mature and equitable relationships between the United States and African nations. A new paradigm, however, must represent an improvement on the past. To this end, it is essential that policies on trade and investment be contextualized in an integrated fashion with other concerns and instrumentalities.

All aspects of US policy including trade, investment, economic and social development assistance, promotion of democracy and human rights should be crafted to support one another in order to generate a multiplier effect, maximize impact, and ensure responsible use of US funds. It would not be helpful to abandon a simple faith in aid as the instrument of development to embrace trade and market forces with equal zeal as "the" solution.

While we recognize that this Subcommittee is necessarily focused on trade and trade-related investment in particular, we also think the search for a new paradigm for US-Africa economic relations requires a broader and longer-term debate. We therefore welcome the formation of the Africa Trade and Investment Caucus as an important forum for the discussion of a new paradigm which might enjoy more broadly-based support. We think it important that debate on the relationships among these issues continue not only within the administration—through a vehicle such as the African Trade and Development Coordinating Group proposed by the US Trade Representative—but also among those concerned with trade, investment, and development in the Congress, the private sector, and the voluntary sector. While the Africa Trade and Investment Caucus' initiatives have taken very productive steps to set such a dialogue in motion, we think it essential that the range of issues and of those involved in the dialogue continue to be expanded. To the extent that a wider consensus develops on these issues, reaching a variety of constituencies in Congress, the private sector, and the voluntary sector, we think it will enhance the chances for legislative success and effective implementation of trade-specific proposals.

II. We strongly favor additional measures to enhance mutually beneficial US trade and investment, including strengthening existing US government programs, improving their level of coordination and visibility, and exploring proposals for new mechanisms. However, any new initiatives will require careful consideration and a full elaboration of details prior to

---

[5] See Howard Stein, ed., *Asian Industrialization and Africa: Studies in Policy Alternatives to Structural Adjustment*. (New York: St. Martin's Press, 1995), as well as Barbara Stallings, ed., Global Change, *Regional Response: The New International Context of Development* (New York: Cambridge University Press, 1995).

[6] "Advisory from the Committee on Ways and Means: Subcommittee on Trade," No. TR-26, June 28, 1996.

implementation. This planning process should include extensive consultation with African states, multilateral agencies, and expert advisors. Proposals involving the transfer of funds from existing programs should not be undertaken without a prior evaluation comparing the effectiveness of these funds in their current deployment with the projected effects of their redeployment.

As noted in the letter below, we think that a number of the specific proposals advanced in the first annual report of the US Trade Representative are positive initiatives, many of which can be implemented by executive action with no new legislative guidance. We hope that other witnesses to this hearing, and continued inquiries by the Subcommittee, will provide the public with additional information on the implementation of these proposals.

We also agree that a more comprehensive initiative, such as that outlined in general terms by Representative Jim McDermott (D-WA), could well make a significant contribution to expanding mutually beneficial US-Africa trade and investment. At the same time, we still have a number of doubts and questions which have not been resolved by preliminary versions of those proposals we have seen. We hope that these hearings and future elaboration of legislative initiatives by the Subcommittee can shed further light on these questions. The remainder of this testimony is our effort to specify some of the questions raised in our minds and that of others in the non-governmental Africa advocacy community, answers to which would influence the level of support we and our constituencies might offer to specific legislation as it emerges. Any suggestions made in the context of these questions should be regarded as tentative in character, and offered as a contribution to the wider debate, rather than as alternative proposals.

Equity and Infrastructure Funds

In the course of his remarks to the Overseas Development Council on June 12, 1996, Representative Jim McDermott presented the option of privately managed equity funds that would leverage private financing for African agribusiness, manufacturing, women entrepreneurs and infrastructure projects. We think this proposal has considerable potential for making a constructive contribution. We are concerned, however, that there be adequate planning so that in fact the public monies invested in such ventures are productively used and have the maximum effect. The level of specificity of proposals we have seen to date does not give adequate information for a careful evaluation. In this context, it seems that the Subcommittee might at this time consider legislation allocating funds for an initial planning process and/or encouragement of appropriate agencies within the administration to undertake such a planning process, which could result in a detailed proposal for establishment of such equity and infrastructure funds.

The mixed experience to date of the ten enterprise funds created for Eastern Europe and the former Soviet Union, and particularly the failure of the Czech and Slovak American Enterprise Fund, emphasizes the need for adequate planning.[7] The planning process should include detailed consultation with private and public financiers of African projects, including potential private sources of risk capital. These consultations might be directed not only at determining appropriate governance structures, levels of financing, and business procedures, but also at the advisability of focusing resources on specific sectors of investment, and the appropriate level of bundling of sectors within or between funds so that adequate management expertise in evaluating projects will be built up within each fund.

Source of Funds

One of the most contentious aspects of any new trade and development initiative will be the source of funds used to underwrite it. At least one of the plans currently under consideration proposes to divert a substantial proportion of funds from USAID programs in Africa. Given the deep cuts which Congress has made in USAID funding allocations in recent years and the benefits which can be derived from a balanced and integrated approach to development—in which development assistance is used to complement and enhance trade and investment strategies—we would argue strongly against any plan which further diminished USAID's capacity to support long-term, equitable, and sustainable development.

---

[7] Leslie Eaton, "Public Money Foots the Bills for 'Privatized' Foreign Aid," *The New York Times*, February 7, 1996, pp. A1, A10.

This is not to suggest that USAID funds should be sacrosanct. On the contrary, the merits of existing programs must be weighed carefully against the potential benefits which both Africans and Americans might derive from alternative initiatives. However, it is worth noting that USAID has already acquired considerable experience in promoting small business and entrepreneurial development. Other existing US programs have also demonstrated success in stimulating private sector growth, trade, and investment, often in highly creative ways. The African Development Foundation, for example, has provided seed capital for projects such as the Spring Cabinet Cooperative Society in Harare. This extremely successful furniture manufacturing enterprise has grown from a ten-member cooperative in 1987 to become one of Zimbabwe's major furniture suppliers with a staff of 178 and earnings of more than $1 million in 1994. Although it uses predominantly local materials, it also imports fabric and oak from the United States. Future US trade and investment programs in Africa should be carefully designed so that they reinforce, rather than compete with, these valuable initiatives.

Over a number of years, Congress has repeatedly reviewed USAID's activities and has delineated a set of guidelines to govern USAID's operations and expenditures. For example, in 1994, Congress stipulated that no funds appropriated under the Foreign Assistance Act of 1961 should be used "for the purpose of establishing or developing in a foreign country any export processing zone or designated area in which the tax, tariff, labor, environment, and safety laws of that country do not apply, in part or in whole, to activities carried out within that zone or area . . ." A risk inherent in the diversion of funds from USAID is that they would not automatically be regulated by provisions intended to protect workers and the environment. Funds should therefore not be redirected from USAID--even from the agency's private sector development activities--without a detailed assessment of the comparative advantage which is expected to result from such a transfer and an evaluation of the proposed action's likely impact on USAID's Africa program as a whole.

Access for Africa Exports to the U.S.

We are encouraged by the efforts currently being made by members of Congress and administration officials to identify new strategies to expand bilateral trade with African nations. To achieve long-term success, such initiatives must dramatically enhance African access to US markets. This includes not only the extension of preferential terms of trade to African nations, but also the encouragement of investment in both the physical and social infrastructure which undergird sustainable development. US policy should also promote emerging African processing and manufacturing industries in a manner which does not invite worker exploitation or environmental destruction.

Most African nations are poorly situated to realize significant advantage from the trade liberalization agreements generated by Uruguay Round negotiations. Studies designed to predict the impact of tariff reductions on sub-Saharan Africa have produced ambiguous and conflicting results, but they agree that the greatest threat which the Uruguay Round presents to African nations is the potential for the further economic marginalization of those countries which are unable to capitalize on the new opportunities presented by the agreements.[8] In order to expand these opportunities, Congress should reactivate the Generalized System of Preferences (GSP). In the short term, this could be accomplished through the expeditious enactment of the GSP Renewal Act of 1996, which was adopted by the Senate on May 13, 1996, as an amendment to H.R. 3074.

Ultimately, however, the US should revise the terms of the GSP to enhance the benefits available to participating countries and to encourage sustainable development. This might involve, on the one hand, waiving statutory product exemptions for eligible countries for a specified period (5 to 10 years) while, on the other, modifying the eligibility criteria. In particular, the United States should move away from its present practice of extending preferences to "least-developed countries," as this designation only takes into account economic considerations. Instead, the program should be geared for those nations which the United Nations Development Programme (UNDP) identifies as "low human development" countries, most of which are in sub-Saharan Africa. The UNDP's human development index (HDI) provides a more appropriate gauge of a country's achievement than purely economic indicators because it factors in data pertaining to the health, education, and income of the

[8]World Bank, *Findings*, Africa Region, No. 67 (July 1996); and US International Trade Commission, *U.S.-Africa Trade Flows and Effects of the Uruguay Round Agreements and US Trade and Development Policy* (Washington, D.C.: US ITC, January 1996).

country's population.[9] Similarly, GSP eligibility should be restricted to nations which abide by basic environmental protection policies and which demonstrate respect for human rights—including equal protection under law for women and adherence to the labor protections cited in the Trade Act of 1974.

Eligibility for New Initiatives

If, as discussed in the previous points, measures are taken to establish investment funds or greater access to the US market for African exports, it is our view that the criteria for eligibility to these programs should be established on the basis of transparent conditions relevant to the programs themselves, and not exclusively conditioned on participation in larger schemes such as those discussed in the next point.

Thus, once the scope of a particular investment fund is determined by its charter, applications to financing from the fund should be open to projects in any sub-Saharan African country, perhaps even with preference to projects which could demonstrate regional rather than single-country impact alone. The viability of such projects should be evaluated with respect to all relevant factors, which would certainly include, but not be limited to, the investment context in the country or countries of the companies presenting the project.

Similarly, expanding export opportunities through amendments in a reauthorized GSP, or other mechanisms, should be open to all countries eligible for that program.

Among the reasons for not linking eligibility in these cases to broader initiatives, such as a US-Africa Free Trade Area, is the different time frames involved. Detailed plans for such ambitious programs, as we argue below, will inevitably take considerable time to develop. More specific measures, such as equity funds or adjustments in GSP product eligibility, could hopefully be implemented on a faster-track legislative and administrative timetable.

U.S.-Africa Forum, Free Trade Area, and Partnership

The proposals sketched out by Rep. Jim McDermott in his remarks to the Overseas Development Council on June 12 provide a very ambitious framework with many features that seem to us highly positive. Precisely because of their ambitious scale, however, we think that they require much more fleshing out and systematic consultation before taking legislative shape. Hopefully other witnesses at this hearing will have commentary that can advance the process considerably. Our remarks are primarily concerned with the issues of timetable, process, and interrelationship among the three elements identified by Rep. McDermott, namely the Forum, the Free Trade Area, and the Partnership.

The first priority, in our opinion, and the one that could also move on a fast track, if there were support from Congress and the Administration, is the U.S.-Africa Economic Cooperation Forum suggested by Rep. McDermott. This would provide an arena in which dialogue about plans for the Free Trade Area and the Partnership could take place among relevant stakeholders, including the US and African private investors, African governments, multilateral agencies, US government agencies, and the US and African voluntary sectors. An effective model for such an exchange is the privately initiated series of US-Africa Telecommunications and Broadcasting Conferences (AFCOM), of which the fifth was held at the Hyatt Dulles hotel in early June this year. These conferences have brought together key players, both private and public, in the telecommunications, broadcasting and informatics communities in Africa, the US and other world regions.

Like the AFCOM conferences, the broader forum should be at the same time high-level and open to interested participants from different sectors, allowing for a wide exchange of views. It would provide the opportunity for public airing of a range of proposals. It could also facilitate informal dialogue which could set the context for more detailed negotiations by government officials concerning particular programs, including the suggested Free Trade Area and Partnership, as well as for subsequent exploration of investment and trade opportunities by private companies.

---

[9] United Nations Development Programme, *Human Development Report 1996* (New York: Oxford University Press, 1996).

Letter from the Washington Office on Africa and other organizations

April 11, 1996

Dear Representatives Crane, Gilman, McDermott, and Rangel:

Thank you for your invitation to respond to the Comprehensive Trade and Development Policy for the Countries of Africa, released by the Office of the United States Trade Representative on February 1, 1996. We applaud the formation of a bipartisan Caucus on Trade and Investment in Africa and appreciate the Caucus' efforts to promote a thorough and participatory discussion of these vital issues.

We congratulate the original authors and supporters of the 1994 legislation which gave rise to these policy proposals. We concur in their assessment that a coherent and effective US policy towards Africa must encompass a full range of interlocking issues, including trade, development, and investment.

We strongly support the continuing efforts of both Congress and the Administration to formulate an integrated US-Africa trade and development policy. Although we have strong reservations about the current document, we believe that it represents a valuable preliminary step toward the realization of that goal.

In particular, we wish to affirm the document's emphasis on the creation of permanent structures within the Executive branch responsible for coordinating US-Africa trade and development policy and overseeing its implementation. We believe that this will help to raise the visibility of US-Africa relations and encourage a thoughtful and systematic approach to the expansion of US ties with the continent.

We also support the document's attention to facilitating regional coordination in Africa. The proposed provisions relating to the designation of groups of countries for cumulation treatment under the terms of the GSP will create new opportunities for African nations.

Several other strategies mentioned in the document are worthy of further exploration. In particular, we would endorse the development of creative and flexible sources of capital and credit, geared to the needs of small producers, credit unions, and cooperative associations. Similarly, we support proposals designed to increase Africa's access to, familiarity with, and use of electronic networks—particularly where these seem likely to create opportunities for grassroots community groups and non-governmental organizations to participate more effectively in defining development agendas.

While we see these as positive aspects of an emerging policy, we believe that the current document ignores many aspects of African realities and disregards well-grounded African analyses of key issues. Instead, it adopts a "one-size-fits-all" approach to development, the many flaws of which have been repeatedly identified by critics in Africa and around the world.

If we are serious about formulating a comprehensive US trade and development strategy that is capable of narrowing the economic gulf between (and within) the US and Africa, establishing a foundation for sustainable development, and addressing our mutual needs for security and prosperity then we must radically revise our policy priorities. We therefore propose that this process recognize the following general principles:

1. Trade programs, debt reduction, aid, and other economic cooperation initiatives should be conditioned on transparent standards applied to recipient governments. But such conditionalities should be developed in open debate, rather than being imposed by donors according to a set of rigid economic prescriptions. A strategic approach to African development requires explicit discussion of the combined impact of aid, trade, debt, and different structural adjustment policies. The US can most usefully shape its own policies on these complex and related topics only if it is willing to engage in genuine dialogue on these issues within African and multilateral contexts. This should include not only the clubs of Western donors that coordinate policy towards particular African countries, but also a broad range of scholars and representatives of civil society.

The US Trade Representative's policy proposals are premised on the assumption that "statist economic regimes" are primarily responsible for a failure "to deliver sustained increases in prosperity for the peoples of Africa." The policy points with approval to the rapid growth achieved by many

Asian economies over the past three decades—without acknowledging the central role which the governments of these countries played in orchestrating the development process, protecting growth industries, and ensuring social investment in education and agriculture. At the same time, the document presents an unambiguously favorable depiction of structural adjustment policies, ignoring the very grave objections which have been raised by African analysts and which are receiving increasingly serious consideration within the World Bank. As a result, the policy states flatly, "A successful development strategy must be *trade-led* and *market-oriented*."

In fact, the experience of most African countries demonstrates that this rigid formula has been equally unsuccessful in generating "sustained increases in prosperity" for Africa's poorest households. Unregulated markets hold few rewards for those who approach them with little or no economic clout. Nevertheless, the dominant policy-making trend of the past decade has been to demand that more and more economic relationships be governed by the market. This model has obstructed the efforts of African leaders, United Nations agencies, and many non-governmental organizations to identify and to implement programs more consistent with "sustainable development."

Ultimately, "public sector vs. private sector" debates obscure much more important questions—questions about *what* policy choices are being made, about how the fruits of growth and development are distributed within a society, and about the extent to which policy-makers are accountable to the people whose lives they affect. Similarly, a narrow focus on macroeconomic indicators (such as aggregate economic growth) disguises more localized, but equally important, dynamics (such as the differential impact of development across gender, class, ethnicity, etc.).

US policy should not aim to impose market-oriented "solutions" on Africa, especially when these involve efforts to constrain, indiscriminately, the role of government. Instead, US trade and development strategies should be components of a broader policy agenda which recognizes a useful and legitimate regulatory role for government, promotes the public accountability of government officials, encourages greater incentive-orientation in all economic relationships, and facilitates the efforts of African public, private, and voluntary sector organizations to identify and implement new economic initiatives suited to local needs and conditions. Access to US development assistance and preferential trade and investment programs should be conditional not merely on the beneficiary's adoption of sound and appropriate economic policies, but also on a demonstrated commitment to sustained social investment, to principles of open and democratic administration, and to the full recognition of basic human rights (including, in particular, the rights of women, youth, landless households, and other historically marginalized groups).

2. Any comprehensive policy must address Africa's enormous debt burden. The current proposals only mention Africa's debt burden in passing. They include no substantive recommendations for a systematic program of debt reduction. Sub-Saharan Africa's debt grew from $84 billion in 1980 to $223 billion by the end of 1995. Twenty-eight sub-Saharan countries have amassed debts which total more than twice their annual income from the export of goods and services. Partly in the interests of enhancing the ability of these nations to service their onerous debts, G-7 nations and Bretton Woods Institutions have promoted export-led growth. As a result, sub-Saharan economies have made little progress toward self-sufficiency while periodic over-production has weakened commodity prices and diminished the purchasing power of their exports.

Overwhelming debt service obligations prevent most African countries from embarking on any integrated and effective development plan. US policy must acknowledge this situation and address it through the introduction of systematic measures to reduce Africa's bilateral and multilateral debt. Africa's bilateral debt to the US is less than 3 percent of its overall debt burden. But the US can and should press for revision of the so-called "Naples Terms" that currently govern bilateral debt restructuring. These terms are inadequate in addressing Africa's enormous bilateral debt, primarily to European governments. For example, Uganda was granted only 2 percent reduction of its $3 billion debt under the Naples terms, despite its strong compliance with economic adjustment programs.

In addition, the US should vigorously support efforts for a comprehensive approach to Africa's debt to multilateral institutions. Any solution should provide additional funding, rather than divert scarce resources from development aid, and should give priority to countries committed to poverty reduction.

3. A top priority for US trade policy should be the establishment of fair trading terms. Congress is right to recognize trade's potential as a tool for the promotion of economic growth and development, both in the US and in Africa. In order for it to fulfil that potential, however, US policy must do more than simply expand US exports to Africa. Trade growth will only be sustainable if it is bidirectional and if it meets the needs of both partners. Fair terms of trade are a prerequisite for such durable partnerships.

The provisions of the GATT treaty, which govern international trade, generally favor industrialized nations. Most African countries have less capacity to take advantage of the new trade opportunities expected to flow from the Uruguay Round agreements. The US should enter into a regular dialogue with a broad cross-section of Africans in order to define more equitable trade terms and to work for their eventual incorporation into existing agreements. In the interim, the US should endeavor to minimize GATT's negative impact on African trading partners by making full use of provisions designed to assist developing countries (such as the Generalized System of Preferences). It should also increase its technical assistance programs to facilitate regional integration and economic diversification.

4. Development assistance should continue for the foreseeable future. Carefully targeted development assistance can complement trade and investment growth to accelerate economic transformation. Moreover, the US must share responsibility for Africa's problems. Many of Africa's present problems are directly attributable to the Cold War—which made countless African nations battlegrounds for US-Soviet competition—and to the continent's long and negative experience of precolonial and colonial engagement by Western powers. The US should be as active in addressing the consequences of these struggles as it was in perpetuating them.

At the same time, the US must radically reassess its assistance strategies and priorities. We cannot afford to squander funds in the pursuit of short-term economic objectives, on well-intentioned projects which are peripheral to the needs and interests of their ostensible beneficiaries, or on the cultivation of fragile alliances with governments which do not enjoy the support of their citizens. US assistance must be aid that works. It must advance America's interests in long-term peace and security by promoting sustainable and equitable development. African assistance programs should emphasize investment in both physical infrastructure and in human resources. Social investment is especially important, not only because it puts *people* at the center of the development process, but also because it enhances the potential for rapid and equitable economic growth.

Focused efforts to prevent humanitarian crises are also priority assistance investments, given their potential to avoid more costly crisis-relief expenditures later. And humanitarian aid needs to be rethought so that it lays the groundwork for long-term development rather than only addressing immediate disasters.

In conjunction with the reorientation of its funding priorities and the other initiatives discussed above, the US should renew its commitment both to bilateral aid programs and to multilateral institutions, including UN agencies and the IDA facility of the World Bank. US assistance programs should achieve a rough balance in their support for public, private, and voluntary sector initiatives. US aid could be particularly valuable in encouraging national and regional dialogues on trade and private sector development by engaging a cross section of the society (men and women; rural and urban; employed, self-employed, unemployed, and under-employed; public, private, informal, and voluntary sectors; etc.) in discussions related to these topics.

Finally, we recognize that this is an evolving policy which is scheduled to be reviewed annually over the next four years. We welcome the opportunity to be involved in this process on an ongoing basis. We also encourage the Caucus to seek out a variety of African perspectives and advice as frequently as possible.

Sincerely,

American Committee on Africa
Jennifer Davis, Director
Bread for the World
David Beckmann, President
Constituency for Africa
Mel Foote, Executive Director
Evangelical Lutheran Church in America, Lutheran Office for Governmental Affairs
Mark Brown, Assistant Director for Advocacy
Global Ministries of the United Church of Christ and the Disciples of Christ, Africa Office
Rev. Dan C. Hoffman, Area Executive, and Mr. Erich Mathias, Program Associate
Inter-Church Coalition on Africa, Economic Justice Programme
John Mihevc, Programme Officer
Maryknoll Justice and Peace Office
Terance W. Miller, Director
Mennonite Central Committee
Jim Shenk and Eric Olfert, Co-Secretaries for Africa
National Council of Churches, Africa Office
Willis Logan, Director
Presbyterian Church (USA)
Rev. Jon T. Chapman, Area Coordinator for Southern Africa
Presbyterian Church (USA), Washington Office
Elenora Giddings Ivory, Director
Progressive National Baptist Convention, Home Mission Board
Rev. Archie LeMone, Executive Director
Society of African Missions
Stephen G. Price, Office of Justice and Peace
Society of Missionaries of Africa
William C. Dyer, Justice and Peace Officer
United Church of Christ, Office for Church in Society
Rev. Jay Lintner, Director, Washington Office
United Methodist Church, Africa Office
Doreen Tilghman, Assistant General Secretary
United Methodist Church, Women's Division
Anna Rhee, Executive Secretary for Public Policy
Washington Office on Africa
Rev. Dan C. Hoffman, Chair, Board of Directors

BACKGROUND PAPER

TRADE: ISSUE BRIEF

THE U.S. AND AFRICA'S TRADE: PROSPECTS FOR PARTNERSHIP

The U.S. Stake in African Economic Progress

Africa is a paradox. Largest among the continents in area, second largest in population, and arguably the richest of all in terms of natural resources, its people are among the poorest in the world. Africa's people are hard-working and intelligent, and the continent can boast of having produced great civilizations long before today's developed countries came into existence. But the vast gap between contemporary Africa's level of economic development and that of virtually every other area of the world is, in fact, growing.

In today's world, stability is not possible in the face of massive international economic and social disparities. Isolationism is not a viable option, even for the U.S. Each new advance in telecommunications, each new desecration of the global environment, each new strain of infectious virus, each new advance in fissionable or biological weaponry, each corporate decision to relocate a plant overseas, shrinks the global community and confirms the interrelatedness of all peoples. Clearly, in today's world, to be one's own keeper one must be one's neighbor's keeper as well.

If the vast economic disparities between the U.S. and Africa place the U.S. at risk, then it must be a matter of U.S. policy to strive to shrink that gap. For half a century, "foreign aid"[1] has been the principal weapon for attacking the vast disparities between the developed and the least developed countries. While the debate over the quality and quantity of aid will continue, and the need for aid remains great, the reality is that it is fast diminishing.

The precipitous decline in Africa's economic performance beginning in the late 1970s led the donor community, directly and via its international funding agencies such as the World Bank and the IMF, to exert great pressure on African countries to restructure their economies so as to render them more efficient and more market-oriented. A major objective of these "structural adjustment"[2] programs was to prod the African countries to revamp their economies in ways which would make them more viable and more attractive to foreign traders and investors. After a decade of experimentation, these programs have shown only mixed results in economic development terms. But in many cases, they have led to new prospects for using trade as a means for transforming African economies. An expanded U.S.-Africa trade relationship deserves high priority on country agendas on both sides of the Atlantic.

U.S.- Africa Trade Relationships

The African continent is a more significant trading partner for the U.S. than most people realize, and potentially even more significant. Both the reality and the potential warrant much greater attention from policy-makers and the public alike. The strategic significance of African oil, for example, should imply much more focused concern with the long-term future of such countries as Nigeria, Angola and Algeria, each confronting very different but intense political and societal crises. The medium-term potential to expand the share of exports to Africa supplied by the U.S. is significant. The long-term potential—if the U.S. aids Africa in expanding and diversifying its exports—is even greater.

The magnitude of U.S.-Africa trade ($23.4 billion in 1994) comes to almost exactly two per cent of overall U.S. foreign trade of $1.2 trillion.[3] U.S. exports to Africa come to almost $9.2 billion. The U.S. imports some $14.3 billion from Africa, creating a trade deficit with the continent of about $5.1 billion.

The imports, moreover, are of strategic importance. Two-thirds of U.S. imports from Sub-Saharan Africa are accounted for by a single commodity: petroleum, comprising 20 per cent of total U.S. crude oil imports in 1994. This is mainly the sweet Nigerian crude oil ($4.4 billion), with sizeable amounts also coming from Angola, Gabon and Congo. Oil from west Africa is particularly favored by American users because of its high quality, but also because its supply has generally been considered to be more stable by comparison with that from the Middle East.

Of equal or greater strategic importance are several minerals for which Africa constitutes a major, if not the major Western source. In this group are such items as chromium, cobalt, vanadium and manganese, used in making specialized steel products. Africa supplies the U.S. with 47, 43, 35 and 25 per cent, respectively, of its imports of these commodities.

On the export side, U.S. sales to Africa have been in the $8 to 10 billion range for the last four years. The bulk of these sales are of equipment and machinery. Sales to Sub-Saharan Africa, for example, in total some $4.4 billion, included $289 million in U.S. aircraft and aircraft parts, $245 million of oil and gas field equipment, almost $200 million in construction machinery, and over $100 million each of computers, motor vehicles, telecommunications and farm machinery. The other major component was food — principally wheat ($250 million) and rice ($107 million). In 1994, the $2.2 billion of U.S. exports to South Africa alone made it a larger market for the U.S. than all the countries of Eastern Europe combined (see chart on page 4).

While the U.S. runs a trade deficit with Africa, most European countries run a trade surplus there. There is, therefore, ample opportunity for the U.S. to increase its exports to Africa, especially if these exports are balanced by increases in imports from Africa as well, so that Africans can earn the dollars to pay for U.S. goods and services.

Africa's capacity to expand imports on a sustainable basis, however, is vulnerable not only to the multiple weaknesses of internal economic infrastructure and management, but also to its continued dependence on exports of primary commodities. Countries exporting

TABLE 1: U.S. Imports from African Countries (in millions of $)

Country	1990	1992	1994
Algeria	2,645.4	1,693.8	1664.3
Angola	1958.1	2302.8	2061.3
Benin	21.5	9.8	10.1
Botswana	14.2	46.5	13.7
Burkina Faso	1.1	13.2	0.4
Burundi	8.3	8.4	7.7
Cameroon	158.2	83.8	55.2
Central African Rep.	2.2	0.8	0.2
Chad	1.1	0.3	1.8
Comoros	4.7	10.4	6.0
Congo	413.6	509.8	403.0
Cote d'Ivoire	199.7	187.5	165.4
Djibouti			0.1
Egypt	398.4	485.8	583.6
Equatorial Guinea		0.1	0.3
Eritrea			0.1
Ethiopia	39.6	8.5	34.1
Gabon	720.3	927.9	1,154.6
Gambia	1.9	1.1	2.4
Ghana	188.6	98.4	198.5
Guinea	141.3	101.6	92.1
W.Africa, N.E.C*	0.6	0.5	0.2
Kenya	58.4	72.9	108.7
Lesotho	25.1	53.0	83.0
Liberia	49.3	12.3	3.5
Libya			
Madagascar	41.5	53.5	57.0
Malawi	52.8	58.5	56.5
Mali	2.7	1.5	4.1
Mauritania	23.9	6.5	3.5
Mauritius	158.4	136.7	217.1
Morocco	109.1	194.8	210.5
Mozambique	28.9	19.4	15.3
Namibia	33.2	23.1	27.8
Niger	46.0	2.9	2.4
Nigeria	5,977.3	5,073.7	4,429.8
Rwanda	30.9	5.0	1.7
Senegal	4.4	10.3	11.4
Seychelles	0.6	1.1	2.8
Sierra Leone	46.0	60.9	51.2
Somalia	0.3	2.4	0.1
South Africa	1,700.6	1,723.0	2,030.2
Sudan	15.8	11.0	35.1
Swaziland	34.1	23.5	37.6
Tanzania	15.4	11.0	14.9
Togo	3.7	6.1	4.1
Tunisia	32.32	51.4	56.7
Uganda	15.9	12.0	34.9
Zaire	316.5	260.2	187.7
Zambia	28.6	70.2	63.5
Zimbabwe	118.7	106.7	102.4
Africa Total	**[illegible]**	**[illegible]**	**[illegible]**

*Includes Guinea Bissau, Cape Verde Islands, and São Tomé and Principe.

Source: U.S. Department of Commerce

oil have advantages that those exporting agricultural products such as coffee or sisal do not have. But oil producers too can easily be battered by wide price swings. Even South Africa is highly vulnerable to price shifts in gold and other minerals.

The catch-22 for primary commodity producers in the world market is that if everyone produces more, the price may go down, as consumers are oversupplied with cocoa, for example, or manufacturers with raw materials. The only secure route to better trade performance consists in being able to export more highly processed products with greater value added inside the country. The international trading system has historically not helped African countries to make that transition. Current changes may impose even greater difficulties.

TABLE 2: U.S. Exports to African Countries (In millions of $)

Country	1990	1992	1994
Algeria	951.4	676.6	1,191.1
Angola	149.7	157.6	197.4
Benin	23.7	27.0	25.9
Botswana	19.2	46.5	22.7
Burkina Faso	14.7	13.2	7.3
Burundi	0.9	9.6	17.7
Cameroon	46.4	57.0	53.6
Central African Rep.	1.2	1.0	2.5
Chad	7.9	5.3	7.5
Comoros	0.1	0.6	0.1
Congo	89.8	59.7	38.0
Cote d'Ivoire	78.4	87.1	111.2
Djibouti	7.4	10.6	6.7
Egypt	2,248.9	3,087.3	2,843.8
Eq. Guinea	0.2	10.8	1.9
Eritrea			8.4
Ethiopia	157.0	249.5	143.1
Gabon	49.0	54.7	40.2
Gambia	8.7	10.1	3.9
Ghana	138.4	123.8	124.5
Guinea	42.9	60.5	49.8
W. Africa,N.E.C.*	20.0	8.5	18.6
Kenya	115.9	124.2	169.5
Lesotho	2.8	3.1	3.4
Liberia	44.3	30.6	46.4
Libya			
Madagascar	11.5	6.1	47.9
Malawi	13.8	13.6	18.7
Mali	9.0	11.3	19.0
Mauritania	14.5	59.4	14.0
Mauritius	12.9	22.3	23.8
Morocco	495.3	493.2	405.2
Mozambique	50.3	149.7	39.4
Namibia	44.4	34.2	16.3
Niger	12.4	12.8	12.0
Nigeria	551.4	1,000.8	509.2
Rwanda	1.0	2.5	34.8
Senegal	52.6	80.2	42.5
Seychelles	2.2	2.3	6.1
Sierra Leone	26.6	28.1	24.2
Somalia	11.6	20.8	29.9
South Africa	1,732.5	2,425.2	2,172.7
Sudan	42.3	52.5	54.5
Swaziland	7.8	3.6	5.4
Tanzania	48.0	33.8	48.9
Togo	30.7	19.5	12.5
Tunisia	178.5	232.5	327.1
Uganda	26.0	15.3	27.7
Zaire	138.4	32.7	39.5
Zambia	80.1	68.1	32.6
Zimbabwe	134.7	143.4	92.8
Africa Total	**7,947.42**	**9,878.9**	**9,191.7**

* includes Guinea Bissau, Cape Verde Islands, and São Tomé and Príncipe.

Source: U.S. Department of Commerce

The Global Trading System Handicaps Africa

As currently structured, the global trading system is not especially friendly to African exports. The recently renegotiated General Agreement on Tariffs and Trade (GATT) Treaty[4] did little to ease the restrictions on the ability of Africa to export to America and elsewhere. In fact, while lowering tariffs will have different impacts on different African countries and sectors, most analysts agree that treaty implementation will have an overall negative impact on Africa's trade prospects, by raising prices of imported foods and removing trade concessions previously granted by European countries. Those countries most able to take advantage of the new opportunities will be those with better trading infrastructures and a larger share in the world market already.[5]

Tariff escalation, that is the fact that import duties generally become higher for products with greater proportion of value added by processing, does considerable harm to Africa's efforts to industrialize itself. Most African countries have an under-exploited export potential, which can be translated into economic growth with virtually no additional monetary assistance from abroad. Foremost among such potentials is the option of processing Africa's primary commodities prior to their shipment abroad. If Zambia could process its copper, Guinea its bauxite, Ghana its cocoa, Ethiopia its coffee, the value added to these exports would provide both employment and vitally needed foreign exchange for these struggling economies.

The fact that the tariff codes raise the levy with each higher level of processing of the raw item discourages such structural changes. So does attaching quotas on the importation of semi-processed and processed goods into the developed countries. This can have even more significant effects in blocking Africa's imports than the tariff escalation practices.

Another widespread practice, subsidizing U.S. and European food exports, has discouraged African farmers from growing wheat and other foodstuffs. To be sure, these subsidized foodstuffs provide a short-term benefit (lower food prices) to the African economies, but in doing so they perform a long-term disservice by driving domestic farmers out of business.

In theory, the latest round (Uruguay Round) of GATT, leading to reduction of many such trade barriers, should open up new opportunities for African countries, as for other countries. In fact, developed countries were well able to fight for detailed provisions defending their interests in the complex treaty negotiations, and are best placed to make the transitions needed.

Many GATT provisions have ambivalent effects when they are applied to Africa. The Trade Related Investment Measures (TRIMS)[6], for example, are designed to make foreign investment more attractive to foreigners, an objective widely shared by both sides. At the same time, some of the TRIMS provisions may be viewed as affronts to the national sovereignty and as unwarranted efforts to repeal local legislation. In-

U.S. TRADE IN 1994 WITH SELECTED REGIONS AND COUNTRIES, IN MILLIONS OF DOLLARS

Place	Exports	Imports	Trade
World total	502483.6	668584.6	1171068.2
Compare All of Africa with:			
South & Central America	41708.4	38461.0	80169.4
France	13618.7	16699.0	30317.7
Singapore	13019.9	15357.7	28377.6
All of Africa	**9164.9**	**14033.9**	**23198.8**
Italy	7182.7	14802.2	21984.9
Hong Kong	11441.0	9695.6	21136.6
Compare Sub-Saharan Africa with:			
Sub-Saharan Africa	**4366.8**	**11707.5**	**16074.3**
SS Africa (w/o South Africa)	**2194.5**	**9677.0**	**11871.5**
Eastern Europe (Inc. FSU)	5301.0	5831.9	11132.9
Former Soviet Union	3561.6	3847.6	7409.2
Compare African Regions and Countries with:			
Former Soviet Union	3561.6	3847.6	7409.2
SADC (inc SA)	**2649.9**	**4486.4**	**7136.3**
Ireland	3418.6	2893.5	6312.1
Russia	2578.1	3245.0	5823.1
Nigeria	**509.1**	**4429.9**	**4939.0**
South Africa	**2172.3**	**2030.5**	**4202.8**
Eastern Europe (w/o former SU)	1739.5	1984.3	3723.8
Norway	1267.3	2353.4	3620.7
Egypt	**2854.8**	**548.7**	**3403.5**
SADC (w/o South Africa)	**477.6**	**2455.9**	**2933.5**
Algeria	**1191.5**	**1526.9**	**2718.4**
Kuwait	1175.9	1457.5	2633.4
Angola	**197.3**	**2061.3**	**2258.6**
Poland	625.2	651.2	1276.4

DEFINITIONS OF REGIONS USED IN TABLE:

Sub-Saharan Africa: All African countries except Algeria, Morocco, Tunisia, Western Sahara, Libya, and Egypt.

SADC (Southern African Development Community): Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

Eastern Europe: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

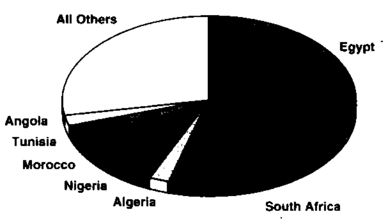
Former Soviet Republics: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

South/Central America: Anguilla, Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Falkland Islands, French Guiana,Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Montserrat, Netherland Antilles, Nicaragua, Panama, Paraguay,Peru, St. Kitts and Nevis, St. Lme, Trinidad and Tobago, Turks and Caicos Islands, Uruguay, Venezuela.

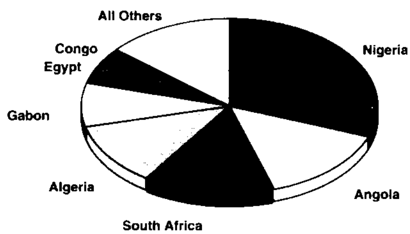
Source: Bureau of the Census, Foreign Trade Division

Note: The figures in this chart show very minor differences with those on previous pages, which come from the Department of Commerce rather than the original Bureau of the Census figures.

Top Seven African Markets for U.S. Exports, 1994



Top Seven African Suppliers for U.S. Imports, 1994



deed, while attracting foreign investors and stimulating trade, these provisions may also discourage local investors and self-reliant development.

Thus, while African countries may open their economies more widely to imports and investments from other countries, they may not have the capacity to take advantage of new opportunities for exports in sectors other than primary commodities.

Unfortunately, the architects of the global trading system, including the U.S., display very little sensitivity to these issues. Aside from its traditional purchases of critical commodity and mineral imports from Africa, the U.S. commercial interest in Africa is almost exclusively focused on what it can sell rather than on what more it can buy. There seems to be little recognition of the need for Africa to increase its exports and shift its pattern of exports to enable it to service its debt as well as to increase its purchases.

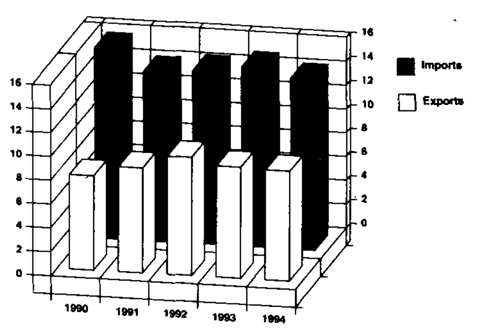
Breaking Out of the Colonial Model

Sparked by the severely deteriorating economic situation which they faced in the early eighties, African countries sketched out an alternative to the export-led development strategy inherited from the colonial era. Instead of continuing to use exports as their engine of growth, they expressed a desire to place greater emphasis on producing goods for consumption within Africa itself, and developing strategies which could shift foreign trade away from the traditional dependence on a few primary commodities.[7]

One aspect of the strategy was termed "collective self-reliance," acknowledging the need to create sub-regional economic entities which could offer economies of scale in both production and marketing. A number of such sub-regional groupings were already in existence (COMESA, SADC, ECOWAS, and others)[8] but were suffering from general neglect by the Africans and from dismissal as unfeasible by the major donor organizations. This donor reticence softened over the decade, however, and in 1991, African heads of state collectively committed themselves to the creation of an African Economic Community by 2025, to be built on the sub-regional economic structures, which hopefully would have matured by then.

In the long term, Africa's potential for trade will depend on building up productive capacity within the continent for goods more in demand by the outside world. U.S. trade policy towards Africa should be consciously aimed at assisting such structural changes, as well as satisfying the more immediate needs for imports of primary commodities and export opportunities for U.S. companies.

U.S. Trade with Africa, 1990-1994, in billions of $



Elements of a U.S.-Africa Trade Policy

It is in the long-run interest of all peoples that the yawning gap between economic conditions in Africa and in the United States be seen to be closing. That is not the case now. Given the fact of diminishing aid resources it is imperative that less costly instruments be found to address this problem. Trade is one such instrument.

To the extent that U.S. policymakers have focused on trade with Africa, it has primarily been in the context of encouraging U.S. exports to Africa. There are indeed many opportunities in this regard, particularly in South Africa but also around the continent. The principal barriers on the U.S. side are the lack of sufficient detailed knowledge of the opportunities, a gap which both government and private efforts can help to fill (see, for example, the African Business Handbook, described on page 8).

In order for trade growth to be sustainable, however, it must be a two-way street. It would be shortsighted for the U.S. to concentrate exclusively on immediate export opportunities and import of the traditional primary commodities. There are a number of trade-related routes by which the U.S. could bring genuine assistance to Africa, and ultimately, to itself. They need not entail large outlays of money.

In 1994, Congress, recognizing the difficulties Africa faced in adjusting to the new GATT treaty, mandated the Administration to implement a "comprehensive trade and development policy in Africa" and to report annually, for four years, on the steps taken to carry out this instruction. The results to date have been extremely limited. The administration has proposed a program of assistance to U.S. companies interested in trade and investment in the SADC area and in four other African countries (Ghana, Gabon, Uganda and Côte d'Ivoire). But critics feel the plan still falls far short of a multi-faceted strategy focused on facilitating development of Africa's trade, and some members of Congress plan to continue pushing for greater efforts.

The following list, although general in character, indicates areas which warrant much more detailed attention from policy-makers.

(1) Encouraging the Production of African Products

The U.S. is well suited to help Africa to identify new products which it might develop for export, and to provide the technical assistance to initiate such industries. In some cases, such as tropical food products, a limiting factor may be the quality standards required by U.S. importers. Technical assistance can overcome this problem with a minimum of effort.

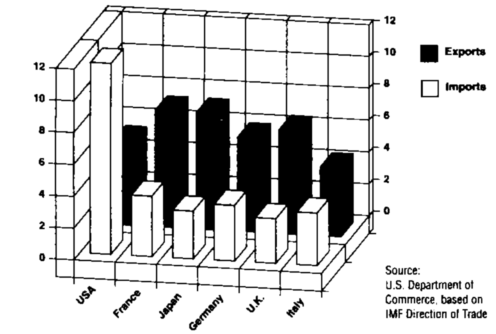
(2) Countering Harmful Effects of GATT

The GATT provisions are set until the next round of negotiations. However, GATT member countries have some flexibility in implementing some of its provisions and the U.S. should take advantage of these opportunities. Furthermore, the World Trade Organization (WTO), the new organization designated to administer the treaty, is in its infancy. There will be numerous opportunities for the U.S. to influence the direction in which it goes, especially with respect to developing-country relationships.

3) Liberalization of the GSP

The Generalized System of Preferences (GSP) is probably the most important legislation which affects

Sub-Saharan Africa's Principal Trade Partners, 1993, in billions of $



Source:
U.S. Department of Commerce, based on IMF Direction of Trade

African exports to the U.S. Its intent and purpose was to ease some of the burdens placed on developing countries' trade by the creation of GATT. The GSP created the option for exempting certain developing country exports from the restrictive effects of the reciprocity provisions of GATT. Each developed country enacts its own legislation. Under the U.S. system, specific countries and products are included as eligible when designated as such by the office of the U.S. Trade Representative, an agency directly responsible to the president.

In practice, the GSP has been of very limited benefit to the poorest countries, such as those in Africa. Despite proposals to reform the program suggested in 1994 and 1995, the GSP was renewed in 1995 for five years with little change. Even without legislative reform, however, African countries could be assisted in taking advantage of the complex administrative procedures for obtaining exemption for specific products.

(4) Assisting the Regional Integration Process

Regional integration offers Africa its greatest hope for escaping from its current economic predicament. Achieving it will be difficult and will require serious financial, technical and moral support from the U.S. and other foreign donors. The U.S. could open foreign commercial service offices at the headquarters of each of the major African sub-regional entities, such as COMESA, SADC, and ECOWAS, to promote the sub-regional concept among U.S. investors.

(5) Reducing African Debt

To service its enormous debt obligations, Africa owes in excess of $ 35 billion annually to the developed countries and international financial institutions. This obligation swamps whatever surpluses Africa may have in its trade balances. Although the debt is not being fully serviced, it should be forgiven or scaled down to a level which is manageable, so that Africa can move ahead with its development. It is particularly urgent to consider Africa's debt to the international financial institutions as well as bilateral debt.

(6) Increasing the Provision of Credit

With the decline in aid monies, Africa is in urgent need of financing for its necessary imports of U.S. goods, and for making capital investments. The Export-Import Bank, a leading U.S. agency charged with this mission, is currently inactive in most of Africa. This void should be reversed. Other U.S. capital-providing agencies, such as the Overseas Private Investment Corporation (OPIC) and other specialized government programs for promotion of trade and investment, should be widely represented in Africa as they are in Eastern Europe. — *Robert Browne*

Robert Browne is currently an Adjunct Fellow at TransAfrica Forum's Policy Institute. He was formerly the U.S. Executive Director at the African Development Fund in Abidjan, Côte d'Ivoire.

Endnotes

1. "Foreign aid," or "official development assistance" (ODA), is formally defined by the Organization of Economic Co-operation and Development (OECD) as financial flows that (1) "are administered with the promotion of the economic development and welfare of the recipient countries as the main objective" and (2) "are concessional in character," with a grant element of at least 25 percent. Developed country "donors" provided approximately $57 billion in ODA in 1993, the equivalent of 0.3 percent of Gross National Product (GNP), the lowest percentage level since 1973.

Selected Information Resources

The third biannual *African Business Handbook*, for 1995-1996, is due out in December 1995. This extensive compilation of general background, statistics, and contact information for a wide variety of government agencies, companies and other groups, costs $35 and is published by 21st Century Africa, Inc., 818 18th St. NW, Suite 810, Washington, DC 20006. Tel: (202) 659-6473; Fax: (202) 659-6475).

Africa Can Compete! Export Opportunities and Challenges for Garments and Home Products in the U.S. Market. Tyler Biggs et al. World Bank Discussion Paper 242 (June 1994). 84 pages. ISBN: 0-8213-2838-7. $7.95.

More information on the impact of GSP, and the failure to use it to benefit African countries, is available from the Environmental and Energy Study Institute (EESI), 122 C St. NW, Suite 700, Washington, DC 20001. Tel: (202) 628-1400; Fax: (202) 628-1825; E-mail: eesi@igc.apc.org.

Among all donor countries, the U.S. provided the lowest percentage of GNP in 1993, only 0.15 percent.

2. While "structural adjustment" programs vary in their particulars, they have mainly been concerned with reducing deficits in financial dealings with other countries and with balancing government budgets. Measures commonly include cuts in government spending, removal of import controls, devaluation of currencies, and privatization of government enterprises. Critics argue that while economic crisis clearly demands "adjustments," the packages imposed often take little account of the damage to human capital and fail to bring about the long-term economic development they promise.

3. These figures refer to the entire African continent. Most easily available statistics separate Sub-Saharan Africa from North Africa, which is generally grouped with the Near East. In this paper, unless otherwise noted, "Africa" refers to the entire continent. When statistics are for Sub-Saharan Africa only, that is noted in the text or table.

4. GATT is the international agreement which has regulated most world trade since 1947. In the Uruguay Round, lasting from 1986 through 1994, negotiators eventually agreed on new rules for tariff reduction, the formation of a new World Trade Organization (WTO), and other measures aimed at liberalizing international trade.

5. See *Wall Street Journal*, Aug. 15, 1994, "Sub-Saharan Africa Is Seen as Big Loser in GATT's New World Trade Accord," Congressional Research Service, *Africa: Impact of the Uruguay Trade Round Agreements*, Oct. 3, 1994; U.S. International Trade Commission, Posthearing Brief in INV. No. 331 362, "U.S. Africa Trade Flows and Effects of the Uruguay Round Agreements and U.S. Trade and Development Policy," Aug. 2, 1995.

6. TRIMS are measures to regulate investment, such as by requiring a certain proportion of local content in manufacturing or a certain percentage of local ownership. The United States, arguing that such measures could have a negative impact on trade, pushed strongly and successfully to include language against such restrictions in the agreement. Developing countries have up to five years, and developed countries up to two years, to eliminate TRIMS which are not in conformity with the agreement.

7. See *Africa's Problems ... African Alternatives* (APIC, 1992) for an abridged version of the 1989 African Alternative Framework to Structural Adjustment Programs. Other sources introducing these issues include Adebayo Adedeji et al., eds., *The Challenge of African Economic Recovery and Development* (London: Frank Cass, 1991); Robert S. Browne and Robert J. Cummings, *The Lagos Plan of Action vs. the Berg Report* (Lawrenceville, VA: Brunswick Publishing, 1984); and James Pickett and Hans Singer, *Towards Economic Recovery in Africa* (London: Routledge, 1990).

8. SADC stands for Southern African Development Community; ECOWAS for the Economic Community of West African States. For lists of member countries in 1994, see page 4. Mauritius was admitted to SADC as its 12th member in 1995. COMESA (Common Market of East and Southern Africa) is the new name for the PTA (Preferential Trade Area), which overlaps with SADC but also includes the countries of East Africa and the Horn.

Additional copies available at $2 ea., $1.60 ea. for 20 or more. Add 15% for postage and handling. May be freely reproduced with attribution to APIC.

APIC

Produced by the
Africa Policy Information Center
110 Maryland Ave. NE #509
Phone: (202) 546-7961
Fax: (202) 546-1545
E-mail: apic@igc.apc.org

This series of background papers is part of a program of public education funded by the Carnegie Corporation of New York, The Ford Foundation, and The John D. and Catherine T. MacArthur Foundation.

THINKING REGIONALLY: PRIORITIES FOR U.S. POLICY TOWARD AFRICA

Recent Congressional action to significantly cut aid to Africa is only one sign among many of a trend to reduce U.S. involvement on the continent. How much further Africa is marginalized in the U.S. will ultimately depend on the ability of Africa's multiple constituencies to reverse this trend. Nevertheless, events on the continent are likely to compel a greater commitment of resources than U.S. policymakers currently contemplate. And engagement at any level needs to be based on clear identification of U.S. interests in Africa and well-defined criteria for establishing priorities.

This paper suggests a framework to assure the promotion of U.S. interests in all five regions of the African continent, and of three important goals shared by Africans and Americans alike.

Although conventional wisdom tends to dismiss Africa's importance for the U.S., each one of Africa's five regions is significant enough in terms of population, potential economic development, impact on global issues and even current trade ties to warrant sustained policy attention. Economic, strategic, political, and societal interests, intertwined within any one African country, are also easily influenced by events across porous borders. African policy-makers are increasingly realizing the need to take this regional dimension into account. U.S. policy should also do so.

Negative goals such as Cold War rivalry no longer define the U.S. interest. It is in the U.S. interest that, within each African region, as elsewhere in the world, countries and peoples should be able to advance the common goals of achieving security, democracy and development. While the paths to these objectives may differ, they are inseparable. Economic progress cannot be isolated from the needs for security and expansion of democratic rights.

U.S. involvement in averting crises and building a sustainable future in each of Africa's regions should not be dismissed as "social work." It is a genuine national interest because of the need for the U.S. to establish a responsible role as a leading participant in the new post-Cold War international community. It is also justified on the grounds of actual or potential economic partnerships in each region. A downward spiral of chaos in any one of these large regions, moreover, would inevitably have costly fallout for the developed countries of the North Atlantic, in the form of refugees, drug traffic, the spread of disease and rising costs for humanitarian aid.

Rational strategies to achieve these goals cannot be designed purely in terms of bilateral relations with selected countries. At the same time, it is not feasible to give equal weight to U.S. relations with each African country. This paper singles out five African nations as focus countries where the U.S. must be consistently involved: South Africa in Southern Africa; Nigeria in West Africa; Zaire in Central Africa; Kenya in East Africa; and Algeria in North Africa.[1]

Giving priority to these countries should not be confused with making unconditional alliances with their ruling elites, with seeking to build them up as regional hegemonic powers, or with granting them automatic first-call in the queue for aid dollars. The idea of 'focus countries' suggested here should be sharply distinguished from the similar-sounding concept of 'pivotal states,' which designates regional powers for virtually exclusive attention within a region, with the assumption that they will lead their neighbors. Rather, U.S. policy towards each of these key countries must encompass the realities of each region and encourage constructive dialogue and collective problem-solving among neighbors.

We also must recognize that the U.S. has special historical responsibilities toward a select number of other countries—Liberia, Angola, Somalia, and Sudan—that also warrant particular attention.[2] The policy approaches to these countries also will be most effective if integrated into policies toward their respective regions. So will the responses to crises forced on the international agenda by their horrendous scale or their momentary passage through the global media spotlight. Likewise, aid programs to "success cases" in large or small countries need to be viewed through the regional prism.

Sustained policy attention to certain countries should always be placed within the respective regional context. Thus there should be a Southern Africa policy while acknowledging that South Africa is a priority within the region, and a West African policy that recognizes Nigeria's centrality to U.S. concerns in that region. What happens in Zaire, still saddled with the dictator installed with U.S. assistance in America's first major Cold War adven-

BACKGROUND PAPER

THINKING REGIONALLY

ture in Africa, will have profound effects on the prospects for its neighbors. Although their regional weight is less overwhelming, Kenya and Algeria will also have major impacts on their respective regions.

This brief paper does not claim to present a fully elaborated case for this approach, which would involve more detailed discussion of policy for each distinct region. The aim here is rather to offer an initial framework to help answer the questions of *where* the U.S. should be most engaged in Africa, and *on what issues*. Even given a consensus on geographical and program priorities, there will remain the debates over what methods to employ and which agencies should have policy leadership and managerial responsibilities. Overshadowing all of this is the specter of diminished resources. But such immediate questions should not distract us from thinking strategically about what are, in fact, significant and growing American interests in Africa.

Deciding Where to Focus

As budget constraints force reductions in embassy and aid personnel, including the closure of some country programs, making decisions about where to focus is inevitable. Yet the grounds for making these decisions are not self-evident. One approach is to concentrate on "success" cases, those countries thought most likely to make it in terms of criteria defined by U.S. officials, assuming that their success will set an example and positively influence the decision-making and behavior of their neighbors. This perspective is often accompanied by the corollary argument that the U.S. should simply opt out of involvement in cases involving too much risk of failure. Since, in Africa, this is often taken to mean most countries, the obvious consequence would be to focus only on the least needy.

At the extreme, some commentators suggest that in Sub-Saharan Africa only South Africa warrants being considered a "pivotal state."[3] Yet together the countries of Sub-Saharan Africa, *excluding South Africa*, account for more total trade with the U.S. than all of Eastern Europe and the former Soviet Union combined.[4]

The framework presented here is different. The point is not to limit U.S. perspectives exclusively to bilateral relations with certain states. Rather it is to find cost-effective ways for the U.S. to pursue its interests for each region as a whole, beginning with consistent involvement with key regional actors.

Focus Countries

I have designated South Africa, Zaire, Nigeria, Algeria and Kenya as five countries too important not to be involved in. Each meets most or all of the following criteria:

(1) they are large countries with large populations;
(2) they boast the strongest and most industrialized economies in their respective regions;
(3) they are presently among the largest trading partners for the U.S. in Africa;
(4) the U.S. has diverse and longstanding interests in them (economic, political, societal and security);
(5) they are potential economic and political powerhouses of their respective regions;

These countries are all key actors within their respective regions, whose cooperation will be invaluable to resolving a wide range of problems. They are likely to be either forces for regional security or sources of regional instability. Finally, there are domestic constituencies in the U.S. concerned with policy toward each of these countries that can help build and sustain public support for new U.S. initiatives.

Together, these five focus countries provide nearly 60% of all U.S. imports from the African continent, and comprise the markets for 75% of total U.S. exports to Africa.[5] The total population of these five countries, nearly 250 million, comes to almost half the population of the entire continent.[6]

The potential for positive (or negative) influence that these focus countries have within their own regions and elsewhere on the continent is illustrated, to give only a few examples, by Nigeria's leading role in the West African peacekeeping force in Liberia, the South African role in promoting political settlements of conflicts in Mozambique and Lesotho, and Zaire's role in alternately accepting, expelling, or arming refugees from the Rwandan conflict. Nigeria largely determined who would be the new head of the African Development Bank (in opposition to the U.S.-supported candidate). Allgeria still has important influence with the Polisario Front of the Western Sahara, whose independence struggle against Morocco—the traditional ally of the U.S. in the Mahgreb—represents the continent's remaining unresolved colonial conflict. And South Africa's current increasingly active foreign policy on Nigeria is a new example of the potential for African powers to influence international policies toward other African states.

Each focus country—and its role within its region—is unique, and U.S. relations with each one will be different. It is now possible to conceive of a U.S.-South Africa policy that considers Pretoria an ally with whom the U.S. can work on a host of issues. Both government-to-government and people-to-people ties are growing rapidly and, tentatively, the two countries share broad policy objectives in South Africa itself and throughout the region. South Africa is the second largest trading partner for the U.S. in Africa, and there is a positive trade balance. With $4.2 billion of trade with the U.S. in

1994, South Africa is a more important trading partner than all of Eastern Europe combined.

In Zaire, in contrast, it is neither possible nor desirable to treat the government as an ally. The U.S. approach there will require a more creative and energetic combination of collaboration with the government on specific matters of mutual concern (e.g. Rwandan refugees, the Ebola virus outbreak), increasing pressure for measurable democratization and the observance of human rights, and strengthening ties with democratic forces.

Economic relations with Zaire are limited and have been diminishing in recent years. Given the country's vast natural wealth, however, its future as an important emerging market should not be discounted solely because of the near chaotic current state of affairs. Indeed, the past U.S. "investments" of over $1.3 billion in grants and loans to Zaire should not be written off so cynically. The country continues to face a national political crisis, and only a democratic resolution of it can unlock the country's enormous but long-blocked potential. It is in the U.S. interest to help achieve such an outcome, and in doing so, to overcome one of its worst policy legacies in Africa.

Thinking Regionally About Africa

Note: Any division of Africa into regions is to some extent arbitrary, given that the regions used by different international organizations and scholars do not precisely correspond. Within East Africa, as designated here, the Horn and the Indian Ocean countries are often considered regions of their own. There are many countries which could fit into more than one region. Among such ambiguous cases: Burundi and Rwanda are sometimes considered part of East Africa or the "Greater Horn of Africa." Tanzania and Mauritius, often grouped with East Africa, appear on this map in Southern Africa because of their membership in SADC (Southern African Development Community).

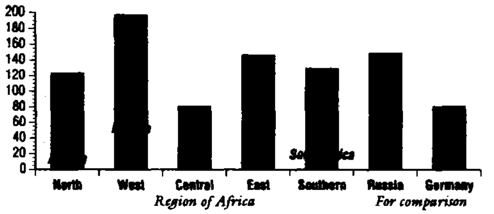
In Nigeria and Kenya similar approaches will be required, at least in the short term. In both countries the U.S. has considerable economic interests. Nigeria is the largest trading partner of the U.S. in Africa and the third largest U.S. oil supplier after Saudi Arabia and Venezuela. Importing some $4.4 billion in Nigerian oil, petroleum and petroleum products, and exporting only $509 million in goods, the U.S. ran a trade deficit of nearly $4 billion with Nigeria in 1994 which accounted for most of the total $5 billion trade deficit with the African continent.

U.S. policy toward Nigeria cannot fail to recognize the centrality of successful democratization to the country's prospects for security or for development. Thus despite the significance of U.S. trade with Nigeria, U.S. long-term interests require re-prioritization of elements in current U.S.-Nigerian relations. The fate of Nigeria's democracy movement holds significant import for the evolution of democratic political systems in other countries in West Africa, and across the continent more generally. The rising calls in the U.S. and internationally for sanctions including an oil embargo against Nigeria will have to be taken seriously sooner or later. Washington will find it difficult to adopt a different standard toward Nigeria than that applied to South Africa, which involved the successful implementation of a comprehensive sanctions policy during the latter 1980s. Similarly, combining sanctions with significant investments in supporting the growth of democratic civic forces makes just as much sense in Nigeria as it did in South Africa.

Likewise, a revitalization of U.S. support for democratization in Kenya is crucial to avoid that country's slippage into a violent ethno-regional crisis, and to provide a positive example of the economic benefits that can accrue from democratic governance. In addition to its economic interests in Kenya, the U.S. still depends on access to Kenyan ports and airfields for various military planning scenarios involv-

Regions and Focus Countries: Population

Population in 1993, in millions



Source of Data: World Bank

ing the projection of U.S. force into the Gulf as well in East Africa itself. This should lend some urgency to U.S. efforts to support democratic reform and state observation of human rights in Kenya. Contrary to the conventional wisdom of the Cold War era, the U.S. cannot afford to elevate basing rights over human rights. Kenya is also a potentially important "hub" around which regional economic development can be built as well as greater economic cooperation between the countries in the Economic Community of Eastern and Southern Africa (COMESA).

In Algeria the complicated challenge of "mainstreaming" Islamic fundamentalism into a new democratic system is a problem with important regional implications across North Africa, in parts of West and East Africa, and in Western Europe as well. Algeria is also the fourth largest trading partner of the U.S. in Africa with total trade of $2.9 billion. Altogether, the countries of North Africa represent some $7.3 billion in trade for the U.S. The dual threats of radical religious fundamentalism and the anti-democratic authoritarianism of governments in most North African states require a strong policy response if the U.S. is to help increase the chances for sustainable democracy and decrease the chances for conflict in this vital region.

There is a need to find rapid ways of pressing forward on human rights and democratization issues, in part because they deserve urgent attention in themselves. This is also imperative because to fail to do so may jeopardize the ability of the U.S. to promote solutions to larger regional problems.

Historical Obligations

In addition to the focus countries identified above, U.S. policymakers should publicly accept greater responsibility for this country's "unfinished business" on the continent. The U.S. should acknowledge that many of its Cold War policies—which shaped U.S. relations with Africa from the era of independence until this decade—have done considerable damage in a number of key African states. We should feel a national obligation to help the people and governments of these countries to recover from the devastation that superpower rivalry inflicted upon them, and helped them to inflict upon themselves.

This is not a matter of pleading guilty and feeling remorse for past deeds. As appropriate as that might be, it would do very little for Africa. More constructively, the U.S. must commit itself to sharing the burdens of reconstruction and reconciliation in order to promote a new international order which fosters accountability for state actions and the international rule of law. We should be particularly concerned about intractable cases of civil strife where past U.S. policy arguably bears substantial responsibility for that result and where external assistance is required to increase the chances of resolution. Among these cases are Somalia, Liberia, Sudan, Zaire and Angola. The U.S. should not simply walk away from involvement with countries that were former allies, client states or, as in Angola, the target of attack by American military proxies.

One reason is that justice in international relations is important in its own right. Unaddressed injustices are likely to fester and weaken any new international order based on rules and ideals. There is also considerable domestic support for the idea that the U.S. should be morally and fiscally responsible for its international behavior. But there is little public recognition of the negative role the U.S. played in some of these cases. Acknowledgement of past mistakes can be useful in sending signals to dictators, demagogues and other human rights abusers that the U.S. is really committed to a new post-Cold War vision. It can also raise visibility of these issues for a public generally unaware of the past.

Current involvement in such issues is warranted as well because America needs to demonstrate the durability of its commitments, and the coherence and predictability of its international behavior. Because our actions abroad frequently have a major impact on entirely different regions (e.g. U.S. intervention in Somalia is still a major influence on U.S. policies toward Haiti and Bosnia), we must be careful to avoid ad-hoc short-term responses to problems for which we share longer-term responsibilities. If the U.S. abandons the people of those countries in Africa where it was most heavily involved during the Cold War, it would demonstrate that the U.S., only concerned with short-term geostrategic interests, is not a reliable partner. Finally, the U.S. continues to have significant 'practical' interests in many of these same countries (e.g. strategic minerals, oil, and access to ports and bases). Taken together, these elements provide ample justification for re-engaging in our "lost legacies" in Africa.

Regional Perspectives

The five focus countries and six "historical responsibility" countries add up to nine, with Zaire and Kenya in both categories. This list is not the same, nor should it necessarily be the same, as those countries currently highest on the agenda for aid programs, for commercial missions, or for crisis response. Those priorities may change more quickly, and should be regularly evaluated on more particularized criteria: the quality of aid programs, the governance capacity of a particular host country, prospects for exports or investments, or the need for response to immediate crises, such as those in Rwanda and Burundi. But such programs should be shaped in the context of a longer-term regionally informed policy framework.

Thus it is essential to take stock of existing U.S. interests throughout each region and understand how they are inter-related. For example, peace and security in Angola and Mozambique, and economic policy reforms in Zimbabwe and Zambia, are all critical for the development of a Southern African economic community. Already in 1994, U.S. trade with the 11 countries of the Southern African Development Community (SADC) totaled over $7 billion, about the same level as with all of the former Soviet Union. Future political and economic progress in this region—including the capacity to attract foreign investment—will depend not only on domestic developments in South Africa, but on the success of regional institutions in dealing with complex and potentially divisive cross-border issues.

In West Africa, although U.S. interests in Nigeria are clearly preminent, a resolution of the wars in Liberia and Sierra Leone will have a direct bearing on the prospects for prosperity or suffering throughout the region. Any policy toward Nigeria focussed on internal reforms must also consider Nigeria's role in the region. In turn, the course of Nigeria's internal struggle for democracy has enormous implications for the legitimacy of its actions in the region. And the results of Ghana's continuing commitment to western economic policy prescriptions are likely to influence the choice of economic policies pursued by its neighbors.

In Central and East Africa, the enormous number of refugees and the continuing conflicts in Rwanda, Burundi and Sudan are straining intra-African relations, and draining local and international resources. Other countries in the region cannot possibly isolate themselves from their effects. In North Africa, the US approach to the confrontation in Algeria must be shaped with an awareness of the parallel but distinct issues of governance in other North African states.

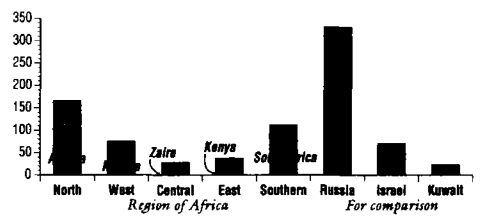
By considering South Africa, Nigeria, Algeria and Kenya within their regional contexts rather than simply in bilateral terms, one can better promote stronger regional economies that will begin to benefit the poorest among them as well as their larger partners. The same pertains to Central Africa, though the prospects for an emerging regional market there depends disproportionately upon a new start in Zaire.

Despite the unevenness of efforts and the mixed results to date, African states have consistently endorsed the goals of regional development and economic integration as crucial to their overall development efforts. Implementing such programs in practice requires confronting many complex negotiations and potential conflicts of national, bureaucratic or commercial interests. But supporting regional economic integration, as is coming to be widely recognized, is in the U.S. interest, since it should help develop larger markets that can better attract U.S. direct investments and exports. The U.S. should develop strategies to promote such integration, while remaining sensitive to the dangers of unsustainable imbalances among countries within a region.

The interplay between bilateral relations with focus countries and wider regional concerns will be different, depending on the region and on the is-

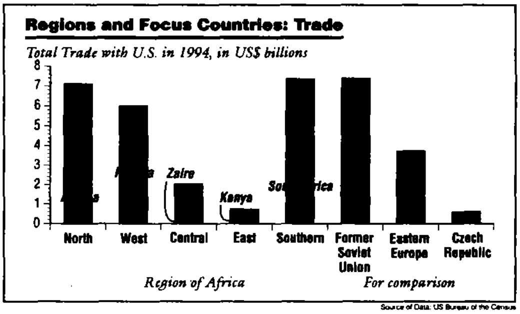
Regions and Focus Countries: Economy

Gross Domestic Product in 1994, in US$ billions



Source of Data: World Bank

sues at stake. But the framework outlined here gives the option of sharpening the focus without writing off non-focus countries. A regional approach would permit the U.S. to remain engaged with the whole of the African continent, while increasing its capacity to promote the objectives it shares with most of its African partners. The alternative of 'selective engagement' only with 'pivotal states' or 'success stories,' in contrast, would tend to ignore the deeper interdependence which exists across the continent.



Priority Issues: Security, Democracy and Development

The criteria above serve to set priorities for *where* in Africa the U.S. should be most involved. Determining which substantive goals should constitute priorities for U.S. policy attention is in many ways easier, despite the complexity of determining how best to achieve those goals. The post-Cold War period has, thus far, been marked by a striking unanimity between African states and the U.S. on priority objectives and even on many of the methods to pursue such objectives. For more than six years now, the African priorities of security, democratization and economic development have been embraced by American policymakers. Indeed, the Administration's vision for U.S. foreign policy, focused on the expansion of democracy and the growth of market economies, could have been inspired by the changes taking place in Africa.

Given this vision, it's surprising that there isn't more focus on Africa, the region of the world with the most emerging democracies and the greatest number of countries undertaking economic reforms. This discrepancy is very telling about American indifference to Africa. It suggests that there is a problem in the political culture of this country which allows policymakers to calculate U.S. interests elsewhere in the world using one set of criteria, while neglecting interests in Africa that meet the same criteria.

Africans are pursuing strategies to establish institutions and processes through which they can collectively promote conflict resolution and prevention, and generally promote stability. In most countries, some form of democratization is underway, albeit haltingly in some cases. The recent disappointing lull in the pace of democratization only underscores the need for more timely and significant support. Democratization offers the only hope of creating and sustaining internal and then regional security and stability, and of legitimizing the process of economic reform which is critical to these countries' long-term development. Despite an adverse global environment, African countries are continuing to pursue major restructuring of their economies. But they are also recognizing the need to increase investments in human resource development, and for greater public participation in development efforts as well as development policy deliberations.

While the U.S. cannot and should not be involved to the same extent everywhere, it must be concerned with the overall progress of all three goals throughout the African continent and take timely action to encourage the most promising African initiatives. Advance towards one goal does not automatically result in progress on the others. In general, however, they are mutually reinforcing, and successes on one front help to improve the chances for advancing on the others.

There is also a need, however, to set priorities among the three broad goals of security, democracy and development. Without security neither of the other two policy priorities can be realized. Security, especially the end to current armed conflicts, must therefore be the first preoccupation of U.S. policy toward each of the five regions. To prevent a return to war where agreements have been reached and to prevent religious, ethnic, or political intolerance from leading to war, democratic institutions will need continuing support in democratizing states.

The details of policy on each of these issues are beyond the scope of this paper. But, for each one, a regional perspective is indispensable to making choices that can have the most effect not only in one country but on advancing these goals for the continent as a whole.

Security

The regional dimension of security issues is vividly demonstrated in human terms by the flow of refugees across the U.S. and multilateral agencies in which the U.S. has a prominent voice.

Shrinking resources clearly imply a need to focus. But the concerns should go beyond choosing which country programs should be maintained and which shut down. A regional perspective, including the five focus countries, should also highlight investment in programs that develop the African human resources needed to solve Africa's own problems, and that help create larger regional markets better able to sustain economic growth and attract U.S. investment and trade. Promoting human resource development through greater investments in health and education, as well as increasing support for participatory development programs at the community level, should be priorities within each country program.

A strategic approach to African development, however, requires explicit discussion of the combined impact not only of aid but also of trade, debt and different variants of structural adjustment policies. And it requires consideration of the regional impact of developments within any one country. The U.S. can most usefully shape its own policies on these complex topics only if it is willing to engage actively in dialogue on these issues within African and multilateral contexts, including but not limited to the clubs of Western donors that coordinate policy towards particular African countries. Once a clearer understanding is gained of how best to promote regional economic development and infrastructure, the U.S. must also be prepared to increase its level of assistance.

Conclusion

With the decline of the strategic significance of Africa in Cold War terms, and the relatively small U.S. economic ties with Africa, too many observers are prepared to state—quite emphatically—that the U.S. has no significant interests in Africa, and that this is unlikely to change in the near future. Such thinking disregards moral imperatives for involvement in Africa that are often just as compelling as economic or national security arguments. In doing so, it ignores the ancestral ties of some 25 million African Americans who have significant and growing investments—political, social, cultural, emotional, psychological and economic—in Africa's future.

It also reflects the absence of a strategic vision to replace the Cold War scenario. There is a failure to see Africa as a whole, a continent with existing economic ties to the U.S. already greater than those with the former Soviet Union. It is true that much of Africa is now handicapped by conflict, poverty or repressive governments. Each of Africa's major regions, however, with populations ranging from 80 million to almost 200 million (see chart), has the potential for significantly increasing mutually profitable ties with the United States, in the economic arena as well as in cultural and political ties.

A new policy perspective must build a new vision for involvement. There are multiple constituencies for Africa in the U.S., concerned about a variety of countries and issues, that together can offer significant support for U.S. engagement in Africa. This regional framework is offered as one component of such a vision, which can hopefully enhance our collective effectiveness in promoting positive change in Africa and U.S.-African relations.

— *Salih Booker*

Salih Booker is the Fellow for Africa at the Council on Foreign Relations, and Senior Advisor to the Vice President for Diversity in International Affairs Programs. An earlier version of this paper was presented to a meeting of the Council on Foreign Relations held in Washington, D.C. (June 16, 1995) to discuss criteria for setting priorities in U.S. policy toward Africa.

Endnotes:

1. While Egypt is obviously considered the top priority in North Africa by U.S. policymakers — and receives more in US assistance than all the rest of Africa combined — it is primarily viewed as a key actor in the strategic Middle East. By choosing Algeria as a focus country, policymakers would need to reorient their thinking and develop policies more sensitive to the African context rather than only a Middle Eastern one.
2. These are in addition to focus countries Zaire and Kenya, where the criterion of US historical obligations also applies.
3. See Robert Chase, Emily Hill and Paul Kennedy, "Pivotal States and U.S. Strategy," *Foreign Affairs* (January/February 1996), 33-51. The authors also include Egypt and Algeria among African countries on their list of pivotal states around the world.
4. Source: Bureau of the Census, Foreign Trade Division, 1994 data. These and additional comparisons compiled in APIC, *The U.S. and Africa's Trade: Issue Brief (Background Paper 004)*, November 1995.
5. Source: US Department of Commerce, 1994.
6. Source: UNDP, *Human Development Report 1994*.

Additional copies available at $2 ea., $1.60 ea. for 20 or more. Add 15% for postage and handling. May be freely reproduced with attribution to APIC.

APIC

Produced by the
Africa Policy Information Center
110 Maryland Ave. NE #509
Phone: (202) 546-7961
Fax: (202) 546-1545
E-mail: apic@igc.apc.org

This series of background papers is part of a program of public education funded by the Carnegie Corporation of New York, The Ford Foundation, and The John D. and Catherine T. MacArthur Foundation.

borders, so that the destructive effects of an internal conflict almost always extend far beyond the borders of one country. In the most dramatic case, even without the humanitarian demand for international involvement in the aftermath of genocide in Rwanda, and the threat of new escalation of violence in Burundi and Rwanda, it should be impossible to ignore the impact of these crises on neighboring countries in both Central and East Africa, including the two focus countries of Zaire and Kenya. Renewal of violence in Angola would threaten stability and the prospects for economic advance in both Southern and Central Africa. The precarious peace settlement in Liberia is of wider concern not only because of US historical responsibilities there, but because of the destabilizing effect of refugees on other West African states, the expansion of illegal arms trading, and the example of continued reliance on violence unchecked by civilian control.

Increasingly, political and economic refugees are finding their way to South Africa, not only from its immediate neighbors but from other regions of Africa. The issue of illegal immigration is becoming the subject of heated debate within South Africa. South Africa's own chances of success as a new democracy and a new emerging market cannot be separated from the prospects of other African countries.

The U.S. cannot avoid responsibility for involvement in conflict resolution efforts where the U.S. has a regional concentration of interests and where the focus country in the region is affected or directly involved in the conflict. The precise mix of bilateral and multilateral engagement that involvement should take is debatable. But it is shortsighted to opt out of sustained efforts, while waiting for disaster to become so overwhelming that costly emergency relief is the only option.

There can be no guarantee of success in resolving intractable conflicts. As it deals with current crises, the U.S. should be concerned first of all with building stronger African multilateral institutions to assist in the future. It must also maintain support for UN peacekeeping efforts, striving to improve their effectiveness. Finally, the U.S. should promote reductions in the arms trade that helps to devastate Africa and rethink our own security assistance programs in Africa, no matter how small.

Democracy

In many cases the threats to regional security and stability come in the form of repressive regimes which refuse to accept greater democracy within their political systems. The struggle for democracy and human rights in the focus countries is of particularly critical importance for other countries, both by the demonstration effect and, at times, by direct positive or negative involvement.

That is one reason why, as is generally recognized, the success of democratization in South Africa should be a fundamental ongoing goal of US foreign policy. But the state of democracy and human rights in the other four focus countries should also be high on the agenda. Among the four, Algeria, Zaire, and Nigeria are currently in the throes of enormous internal political struggles, all involving significant human rights abuses. In each case, the attainment of a democratic system of governance would positively influence the other countries of the region and help lay the groundwork for accelerated regional economic integration. In Kenya, the democracy movement has suffered severe setbacks owing both to its own disunity and the government's continuing political repression. Nevertheless, democratization is crucial to Kenya's future and the future of the East Africa region.

In each region, it will be necessary also to identify where the U.S. can best make a critical contribution to helping the smaller countries consolidate the democratic changes most of them have embarked upon. The variations of what would be appropriate in the many different cases are too numerous to detail here. Suffice it to say that with limited resources we will need to be creative, and better at coordinating with other donors, host governments and non-governmental organizations.

Focus Countries within Regions

	Status within Region					
	Population		GDP		Trade with US	
Country	*Percent*	*Rank*	*Percent*	*Rank*	*Percent*	*Rank*
Algeria	**21.9%**	**2**	**40.3%**	**1**	**38.2%**	**2**
Nigeria	53.2%	1	50.9%	1	82.2%	1
Zaire	**50.7%**	**1**	**22.1%**	**2**	**10.8%**	**3**
Kenya	17.3%	3	25.2%	2	36.0%	1
South Africa	**31.4%**	**1**	**76.2%**	**1**	**57.0%**	**1**

Development

There are many substantive issues concerning U.S. development policy, involving the size and the focus of the development assistance budget, the impact of policies on trade and debt, and the substance of the macroeconomic advice offered to African countries by

Chairman CRANE. Thank you, Mr. Tilton.

Mr. McDermott.

Mr. MCDERMOTT. Mr. Chairman, I want to thank all the people who have come today and testified. I think your input is important and will be useful as we work through the various issues you have raised.

I guess the question I would ask of Mr. Bucknam and Mr. Nedelcovych is, why do you think the Ex-Im Bank has had the policies and implemented the policies in the way they have in the past? I mean, what is it? Is it structural or is it simply a mindset that has created—or is it legislation that created the Bank that makes it impossible for them not to be further involved in Africa?

Mr. BUCKNAM. If I could respond, Mr. McDermott, I think—and I am not here to criticize Ex-Im Bank because it is an excellent organization and we rely on it heavily. But——

Mr. MCDERMOTT. I am from Seattle, where we sell airplanes, so I know a lot about the Ex-Im Bank. [Laughter.]

Mr. BUCKNAM. What you have is the end results of a situation which flows from this credit rating system, that enables them to go off cover and to hide behind a credit rating system that they are not allowed to disclose the basis for going off cover because that is confidential. But once they go off cover, they do not bother to tell anybody, including the subject country, what has to be done to go on cover.

There was a time, a little over 3 years ago, when there was actually an African Division at Ex-Im Bank, but recently they merged Africa with Europe. Now, some Africans took umbrage at that because it was like putting them back under their colonial masters. So, there is no constituency at Ex-Im Bank. There are two people, one person in business development and one person in Europe-Africa who handle Africa for Ex-Im Bank, and that is simply not enough.

Mr. MCDERMOTT. Why was that decision made to merge Africa and Europe?

Mr. BUCKNAM. Well, it is because they are off cover in 37 out of 48 of the countries, so they had to use their limited resources elsewhere.

Mr. MCDERMOTT. OK.

Mr. BUCKNAM. But if my point is adopted and somebody takes an interest at the director level to sit down with government officials and tell them A, B, C, what has to happen, then it is no longer going to be 37; it is going to go down to 30, it is going to go down to 20, and they are going to be opening in a lot of other countries and they are going to have to re-create an African Division at Ex-Im Bank.

Mr. MCDERMOTT. What you're saying is that you think if the countries knew what they had to do, they might be able to do those things——

Mr. BUCKNAM. I know in the case of Cote d'Ivoire they have asked repeatedly and they do not get any straight answer from anybody.

Mr. NEDELCOVYCH. Congressman, if I may add to that aspect, just to sort of follow what my colleague said there, the issue really does flow out of—and we use Ex-Im quite a bit ourselves—out of this rating system. So that if one has an equation, a process, in which a number of parties rate the country—and we will leave out how it happens—then you can simply say we cannot operate there because it is an F-rated country.

The real issue is their intent. In other words, as my colleague said, if inside the Ex-Im Bank there was the interest and the willingness, then we could go forward. The edict would come and say it is OK. Ex-Im only provides cover in 13 countries out of the 51 or 52 that we operate at and it is not clear why. In fact—and this is in my statement—of the seven top growing GNP countries, only two of them—in fact, only one of them, since Kenya is sort of half-on and half-off—are provided Ex-Im cover.

Now, what is the rationale why we do not? That is the issue. We have identified the problem, and if we identify this as the problem, let's go forward and resolve it. There is an answer there, if we want to focus on it.

Mr. MCDERMOTT. Mr. Lande, do you have a comment?

Mr. LANDE. Not on Ex-Im Bank.

Mr. MCDERMOTT. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. No questions, Mr. Chairman.

Chairman CRANE. Mr. Payne.

Mr. PAYNE OF NEW JERSEY. Thank you.

Let me just ask this question. As you know, there are regional organizations in Africa, and the President's trade and development policy report on sub-Saharan Africa describes the history and experiences with these regional organizations. But we have not done anything to offer any kind of new initiatives in that regard.

I just wonder if any of you are familiar with the various regional organizations in sub-Saharan Africa and what progress are they making, or what kind of assistance do you think they could use from the United States or other international organizations, if anyone could try to answer that.

Mr. FOOTE. If I could just sort of comment, my view is—my organization has a number of relationships with a number of African regional organizations. We find oftentimes that they have never been contacted before. In other words, it seems to me that a lot of these institutions in Africa are overlooked. So, there is a need to learn about them, to find out where they are coming from.

Oftentimes they fall into the area of resources, technology, communications, training. The question of language barrier is oftentimes an issue. I think on the one hand, for the American business community, we need to really make a lot of these proposals coming from Africa, to put it in English so that our people can even understand it.

I would say it just falls into the whole category of just general support.

Mr. NEDELCOVYCH. Congressman, as you know, I lived in the halls of such an institution for a number of years, at the African Development Bank, perhaps in a better day. Since then, it went through a rough period. I believe that it is definitely mending itself and coming back out.

For me, there's a very simple answer. In the end, it is the regional organizations that are going to have to pull a lot of this weight. When you get right down to it, those entities—not to say that they all function well; not to say there are not many things that can be repaired within each of them to make them better. But the point is that they are the entities on the ground. They are, if you will, the organizations of the constituency or the entities you're trying to reach.

So for the African Development Bank, my personal view is, particularly with the present leadership there, the new president, that the effort and intent of developing and growing the private sector program will prove very useful. The ability to deal directly with private African businesses through the bank's private sector window, not strictly the traditional government-to-government kind of lending, a sort of IFC-like entity that we have at the World Bank—I think is a great step forward, and I would strongly encourage it.

The trade associations. You know, it is a mixed bag from my perspective. But I think particularly the COMESA, the East and Southern African trade grouping, is doing a superb job. It is creating what has been missing in Africa, a market of size that makes it credible, for particularly larger companies, to go have a look, as opposed to concentrating on Asia. COMESA I would very much single out as being successful.

So, in brief, to me, I think we have to give them support because that is where the answers will come. I think certainly our position within the multilaterals, particularly the African Development Bank, ought to be such that we do support it because we do get good value out of it, both ourselves as companies here operating in Africa, as well as my belief that it is through those organizations that you will get that kind of development.

Mr. BUCKNAM. I think, Mr. Payne, that the hope for Africa lies in the development of the private sector, and to that end, notwithstanding all these regional kinds of organizations, it is the Corporate Council on Africa, the type of organization of which my company is a member, that will really spur the type of development that is needed for Africa's future.

Mr. LANDE. I would respond, again focusing on the trade area, which I know more about. I will focus on subregional organizations. Africa is a continent of diversions. Sub-Saharan Africa has 48 countries whereas South America has only 12 countries. So, the idea of assuming that all problems can be solved on a regional basis does not really fit the bill.

The specific response to your question is, when it comes to the subregional organizations, the United States can do five things:.

First, we should decide that we support integration in Africa. As in South America, integration begins with subregional agreements, and we should make sure that the WTO's provisions are not that strong and doesn't help them. We should provide technical assistance if they require it, in terms of working out things like origin rules.

Third, we should instruct or request USAID to help countries get over their particular shortfalls that they are benefitting. Fourth, we should work together with the gentlemen in the private sector and emphasize the fact that they look at Africa as a region. And there is one particular interest, that we should really urge South Africa to be in the lead in opening its markets to these countries, because that is the most important thing they can do. Finally, as I stated earlier, we should view sub-Saharan Africa as an entity. Any special measures opening markets to African trade should extend throughout sub-Saharan Africa without distinction.

Mr. PAYNE OF NEW JERSEY. Just real quickly, with the democratization that has taken place in Africa—for example, I think we are at a unique situation in Southern Africa. You've got Malawi with a president for now 28 years; Kenya, a 28 year president, lost election; Namibia, Ninjomo is in, and Mozambique has a new government. In the southern rim, for the first time there is no civil strife, which is a golden opportunity.

Do you think that, with the democratization, and with multiparty elections that are happening, with the support from NED and AID and so forth, and seeing that these things work, do you think the opportunity right now in that area where there are no civil conflicts would be an ideal place where you would feel the infrastructure and some of those problems still present an overwhelming obstacle?

Mr. LANDE. I would say that, in terms of sub-regional integration, you should make the SADC countries the force of U.S. attention. Since, Tanzania has historical links with Kenya and Uganda, as part of East Africa, SAPC should be encouraged to expand to encompass these countries as well.

Let me just make a quick comment on bananas we face. When deciding our trade policy priorities we have a very democratic system. Thus, anyone who has a complaint concerning a foreign trade practice has access under section 301 antidumping.

I agree that somewhere we have to translate other policies into our policy. Our major interest should not be in narrowly defining whether or not SADC meets the requirements of article XXIV of the WTO. It should be whether we should take advantage of the current impetus toward regional integration. Congressman Payne, described it 100 percent correctly. Where we happen to have a group of countries that does not have civil strife, or are struggling to regain economic stability, as Mozambique and Angola are, we should have a higher priority then the strict definitions of trade rules.

So, the challenge is—and I am sorry Congressman McDermott had to step out for a moment, since he was right on the mark to somehow convince USTR, which runs our trade policy, together with the National Economic Council, to give a priority to the development of Africa. Bananas which we do not produce should not be a trade policy priority. It is a challenge you I do not know how to overlay foreign policy consideration because the results of an open democratic petitioning system.

Mr. TILTON. Representative Payne, I think this helps to illustrate a case in point that we have been trying to make in our testimony, because earlier today as well there was a reference made to the peace and stability in parts of Africa almost as if it was serendipitous, had fallen from the sky.

In fact, we would argue that these things must happen together. Aid, trade and investment all go hand in hand. Part of what has laid the groundwork for those greater strides in democracy and in human rights has been, first and foremost, the efforts by people within those countries. But, in addition, supporting that, the role of United States and other donor nations in helping to underwrite and support those efforts toward peace, toward human rights, toward democracy. I think those are very important to be continued in other parts of the continent, as well as building up our regional ties and greater communication with regional blocks.

Mr. PAYNE OF NEW JERSEY. Since my time is up, and I am only a visitor here, let me just say that I would be very opposed to a new initiative in trade, as you have just indicated, eroding the diminishing amount of aid which is going to, in essence trade cannot be substituted for aid. It will not work. The Congressional Black Caucus opposes it. We are for trade, African countries want trade. They say we do not want aid, we need trade.

But you cannot move into trade when you do not have a road to run down or you do not have a government to govern, or you do not have integrity in the banking system. You have to continue to have democratization, NED-type programs, USAID, infrastructure programs, clean water programs, programs of nutrition, immunization programs. That makes the stability that will make trade work. Absent that, to dilute that already diminished amount is wrong and it will be a policy that is ill-fated.

Thank you, Mr. Chairman.

Chairman CRANE. I want to thank all of you again for your time and patience and contributions. We look forward to ongoing input from you.

With that, the Subcommittee stands adjourned.

[Whereupon, at 3:40 p.m., the Subcommittee was adjourned.]

[Submissions for the record follow:]

TESTIMONY OF
THE HONORABLE LAURI J. FITZ-PEGADO
ASSISTANT SECRETARY AND DIRECTOR GENERAL
U.S. COMMERCIAL SERVICE
U.S. DEPARTMENT OF COMMERCE

Before the Trade Subcommittee
Ways and Means Committee
U.S. House of Representatives
August 1, 1996

Mr. Chairman, thank you for extending to me the opportunity to testify on behalf of the Department of Commerce on the economic situation in Africa and the measures the U.S. Government is taking to build a lasting economic and commercial partnership between Africa and the United States. As my colleagues have explained, we believe it is essential to encourage economic growth in Africa, and strengthening our commercial cooperation is a vital step in achieving that objective.

For too long, Americans have associated Africa with a continuous cycle of crisis and suffering. We have grown accustomed to the themes of famine, disease, war, political instability, and economic stagnation. Although none of these problems is unique to Africa, all have become associated with the region to an inordinate degree. But as the Twentieth Century draws to a close, Africa is undergoing unprecedented political and economic change. The transformation sweeping across the African continent is opening the region to commercial opportunity as never before.

As Africa evolves politically and economically, it is becoming increasingly attractive to foreign business enterprises. Although Africa's commercial potential is largely untapped by the American business community, the U.S. Government has undertaken several new initiatives to assist firms in participating in the region's awakening markets. These initiatives respond to the growing attention to Africa by the U.S. business community, as well as the desire of Africans for greater American involvement in their efforts to improve governance and increase prosperity based on free enterprise.

The African experience to date has demonstrated that democracy and market-based economies go hand-in-hand and are mutually reinforcing, because both depend on the concepts of predictability, accountability, and the rule of law. As the political and economic reform process proceeds, more and more African countries are making the difficult policy choices to build a foundation for political and economic freedom in the future, a future in which American business can play a pivotal role.

Africa in World Trade

As African countries continue to implement reforms, they are gradually becoming more significant players in the global trading system. In 1994, the countries of Sub-Saharan Africa represented a total import market of $71 billion, while their combined exports totaled nearly $65 billion. The United States provided just over 6 percent of Africa's total imports, placing us in fifth place as a supplier behind France, Japan, Germany, and the United Kingdom. That represents a decline from a market share of more than 7 percent and a second place supplier position in 1993, due to a large drop in U.S. exports to Nigeria, our second leading market in Africa. Our Nigeria shipments declined by 43 percent, reflecting uncertainty in that country's political and economic climate, a shortage of foreign exchange, and the deterrent effect of widespread business scams.

Market share data for 1995 are not yet available, but we anticipate a strong rebound for U.S. suppliers from 1994. U.S. merchandise exports to the Sub-Saharan region expanded nearly 23 percent, propelled by surging shipments to South Africa and a rebound in sales to Nigeria from their low point in 1994. Nigeria's economy remains deeply troubled and our sales are well below the levels of the early 1990's. However, led by wheat, drilling equipment, and plastic materials used in pipelines, shipments have recovered enough to boost overall U.S. exports to Sub-Saharan Africa.

In comparison, U.S. merchandise exports worldwide grew by less than 14 percent in 1995. Based on partial-year data from the IMF, U.S. exporters may have fully recovered the market share they lost in Africa in 1994.

U.S. exports to Africa set a new high in 1995, reversing a two-year decline. Sales to Sub-Saharan Africa were 54 percent greater than our exports to the Newly Independent States of the former Soviet Union. U.S. exports to South Africa alone were roughly equal to our sales to Russia, and greater than those to all the countries of Eastern Europe combined. Robust growth has continued into 1996, with U.S. shipments to Sub-Saharan Africa in the first quarter a third greater than during the same period a year ago. Among the leading export categories are: wheat; oil and gas field equipment; construction machinery and parts; computers, peripherals, and software; aircraft and parts; telecommunications equipment; farm machinery; and mining equipment. U.S. exporters are making a significant contribution to African infrastructure.

U.S. investment in Africa has also outperformed U.S. investment worldwide. At year-end 1994, the U.S. direct investment position in Sub-Saharan Africa was $3.7 billion, with South Africa accounting for 28 percent of the total, Angola 14 percent, and Nigeria 11 percent. U.S. direct investment in Sub-Saharan Africa by non-bank affiliates of U.S. enterprises generated a 30 percent return on book value, compared with 11 percent worldwide, 14 percent in Latin America, and 12 percent in Asia and the Pacific region. During the period 1990-94, the average annual return on book value of U.S. direct investment in Africa was the world's highest at nearly 28 percent, compared with 8.5 percent worldwide.

U.S. investment in Africa boosts U.S. exports and helps to fuel American industry. $400 million of U.S. merchandise exports in 1994 were shipped to U.S. majority-owned non-bank affiliates in Africa, including those in North Africa. The United States imported over $3 billion from these affiliates, mostly crude oil.

Initiatives to Support U.S. Business

Despite recent growth in U.S. trade and investment, Africa remains the last frontier for U.S. exporters and overseas investors. Much of the U.S. business community has long regarded Africa as a preserve of the former European colonial powers. The late Secretary of Commerce Ron Brown challenged that self-fulfilling prophesy, insisting that the United States would no longer cede Africa's markets to our trade competitors. Secretary Brown declared the United States ready to compete for a much bigger share of Africa's markets for the mutual benefit of Africans and Americans alike, and he committed the Department of Commerce to a set of initiatives designed to broaden and deepen U.S. commercial involvement in Africa.

Much of our initial focus was on South Africa, whose economy dominates the continent and whose excellent infrastructure is a key to development throughout Southern Africa. South Africa accounts for half of Africa's total production and claims more than half of U.S. exports to the Sub-Saharan region.

South Africa's success in building a free enterprise democracy is of paramount importance to all of Africa, because many American firms view South Africa as the region's growth engine, low-cost supplier, and as their base of operations for all of Africa. These considerations led the late Secretary Brown to designate South Africa as one of the world's ten *Big Emerging Markets,* where potential for U.S. export growth is particularly strong. The Commerce Department program in South Africa includes an intensive trade promotion program, as well as special initiatives to influence development of South Africa's commercial policy and open its market opportunities. Among the initiatives is the private sector Business Development Committee (BDC), which serves as an advisory body to the government-to-government Binational Commission (BNC), co-chaired by Vice President Gore and Deputy President Mbeki. These organizations work to remove business impediments and ensure close bilateral cooperation to support private enterprise. The BNC and BDC held their combined semi-annual meeting with their South African counterparts in Washington July 22-23, and made excellent progress in strengthening the bilateral commercial partnership. South Africa announced a resolution of the long-standing tariff dispute affecting exports of U.S. washing machines, and our two governments advanced the negotiation process toward a bilateral tax treaty. The United States agreed to provide technical assistance to South Africa in formulating a trade protocol with its neighbors. The U.S. Overseas Private Investment Corporation (OPIC) announced plans to establish a new equity fund for investments in Southern Africa, and also invited South African investors to joint venture with American partners in third countries.

With attention to South Africa's position as the potential driver for the entire Southern Africa region, Secretary Brown appointed a Commercial Minister Counselor in Johannesburg, with responsibility to coordinate a program of business promotion and support throughout the twelve-nation Southern Africa Development Community (SADC). The regional Minister Counselor travels throughout the region to promote and assist U.S. business interests, and to advocate on behalf of U.S. firms competing for the region's major procurement projects.

The strong commercial relationship between the United States and South Africa has paid big dividends for both sides. U.S. exports to South Africa have grown more than 25 percent in two years, and shipments in the first quarter of 1996 were nearly 30 percent above the same period of 1995. Investments have surged as well. More than 250 U.S. firms have established affiliates in South Africa, according to the Investor Responsibility Research Center, and these enterprises employ more than 74,000 South Africans. The United States and South Africa are cooperating in the fields of commercial law and tourism development, and have made progress in resolving issues in intellectual property rights (IPR) protection and civil aviation services, which threatened to hamper further commercial expansion. Progress on IPR issues has enabled the United States to provisionally remove South Africa from its *Special 301 Watch List*, although South Africa must fulfill commitments and make further progress in the area of trademark protection, which will be the focus of a Special 301 "out-of-cycle" review in September. A civil aviation agreement was signed during the Binational Commission meeting.

The United States and Japan have also launched a joint initiative on South Africa. Commerce Secretary Kantor and Japan's Minister of Trade and Industry Tsukahara signed an accord last April to cooperate in promoting the competitiveness of South African industries and improving the South African business environment. The two countries agreed to establish a joint working group on South Africa to engage in information exchange, and to cooperate in small and medium enterprise development among South Africa's black majority population.

As the South Africa Initiative continues, the United States is engaged in the rest of Africa as well. In addition to Johannesburg, two other Commercial Service Offices in Africa--Abidjan and Nairobi--have taken on regional outreach responsibilities in cooperation with their State Department colleagues in neighboring diplomatic posts. The regionalization of the Commercial Service enables the Department of Commerce and the Department of State to maximize their scarce resources by combining their efforts in trade promotion, business facilitation, and direct support for American companies.

With Africa's own financial resources severely constrained, the operations of the multilateral development banks take on added importance. The Commercial Service has assigned staff to each of the banks, including the World Bank and the African Development Bank, to help U.S. exporters participate in the banks' project procurements and to help resolve procurement problems. Preliminary indications are that U.S. exports arising from African Development Bank operations totaled more than $100 million in 1995, a significant increase over previous years.

The Departments of Commerce and State also continue their business outreach through the annual *Conference on U.S. Trade and Investment in Africa*. The conference is co-sponsored each year in a different U.S. city, in cooperation with the Corporate Council on Africa and selected local organizations. As the government's largest outreach program on Africa to the U.S. business community, the conference involves member agencies of the Trade Promotion Coordination Committee (TPCC), an organization of 19 U.S. agencies chaired by the Secretary of Commerce and designed to coordinate our overseas business promotional programs, plus local trade organizations and the private sector. The 1996 conference in Houston attracted an audience of nearly 250.

As you know, in compliance with the 1994 Uruguay Round Agreements Implementing Act, the White House last February transmitted to Congress the first of five annual reports on a new *Comprehensive Trade and Development Policy toward the Countries of Africa.* The Clinton Administration is the first to develop such a policy toward a region long overlooked in U.S. foreign economic and commercial policy. The report stressed that the U.S. relationship with Africa has entered a new phase, based on *trade* rather than *aid.* The Administration has committed the United States to helping Africa in various ways to build a future based on democracy and free markets:

- to participate in bilateral and multilateral efforts to support those African countries that pursue meaningful economic and regulatory reform;
- to support efforts to improve essential government and non-governmental institutions and physical infrastructure;
- to help create a more growth-oriented African business climate that will generate trade opportunities and attract both domestic and foreign investment.

The private sector will have the lead role in helping Africa to alleviate poverty and build prosperity, and the U.S. Government will work with African governments to identify and remove impediments to the functioning of free markets. We are looking to the Africans themselves to empower their own private sectors to partner with U.S. enterprises.

Commercial Development Mission to Africa

Shortly after the White House report was transmitted to Congress, the late Secretary Brown led an historic *Commercial Development Mission to Africa*, which demonstrated clearly just what the report envisioned. The mission visited five countries: Cote d'Ivoire, Ghana, Kenya, Uganda, and Botswana. In each country major initiatives were undertaken with African governments and private sector representatives to begin a lasting process of economic and commercial expansion based on close cooperation with American companies.

During the mission Secretary Brown held discussions with government leaders and private representatives from nearly 40 African countries and more than 150 U.S. firms. He announced contracts and agreements for American companies totaling nearly $500 million, and he advocated on behalf of U.S. firms competing for projects that eventually could total more than $3 billion of U.S. exports. The Secretary challenged African leaders to recommit their countries to democracy, free enterprise, transparency, and lowering of commercial barriers.

He signed a Memorandum of Understanding between the Department of Commerce and SADC aimed at increasing trade and investment ties between the United States and that important twelve-country regional organization. The agreement outlines a framework for cooperation between the Commerce Department and SADC with respect to commercial development in Southern Africa. The SADC agreement complements the Initiative for Southern Africa implemented by the U.S. Agency for International Development (USAID), designed to help SADC increase regional trade and economic integration. Secretary Brown also opened a new Commercial Service office in the U.S. Embassy in Accra, Ghana, acknowledging the growing interest of U.S. business in Ghana as that country aggressively implements economic reforms.

After his mission to Africa, Secretary Brown moved to further consolidate the U.S. commercial partnership with the region by establishing a permanent Africa Working Group within the Trade Promotion Coordination Committee. Much as the Africa Trade and Development Coordinating Group works to coordinate trade and development policies in Africa among U.S. agencies, the TPCC Africa Working Group serves to institutionalize interagency coordination of U.S. Government programs to support a stronger commercial relationship with Africa, and to ensure that the programs continue well into the future. The Working Group convenes periodically to implement U.S. trade and investment initiatives toward Africa, to address specific problems and impediments to U.S. commercial expansion in the region, and to help coordinate U.S. Government measures to resolve them. The Working Group has discussed such key issues as project finance, IDA replenishment, and means to follow up on the Brown mission. In September, we expect to host a commercial development mission to the United States by a joint governmental-private delegation from Southern Africa.

The initiatives underway to support U.S. business in Africa have already borne fruit. American exports to the region have reached their highest level ever, and investment is keeping pace. As the Administration prepares for the second annual report to Congress on *A Comprehensive Trade and Development Policy toward the Countries of Africa,* we anticipate beginning a dialogue with African countries on a regional basis, with the objectives of promoting continued economic liberalization, regional development cooperation, and stronger commercial ties with the United States. We also look forward to close consultation with Congress toward our shared long-term objective of a more prosperous Africa in commercial partnership with the United States.

Mr. Chairman, the measures I have described which the U.S. Government has undertaken to support increased U.S. commercial involvement in Africa are important to Africans and Americans alike. We will continue our efforts to educate the U.S. business community about Africa's growing opportunities and its readiness for American business participation. However, the biggest boost to U.S. involvement in Africa's efforts to build prosperity must come from the Africans themselves. They must strive for greater openness and transparency in their business climates. We will use our dialogue with African leaders to ensure a level playing field for American firms in Africa, and we will challenge our African partners when their actions yield an unfair advantage to our competitors. Africans must also establish the political will in favor of regional development cooperation, in order to attract U.S. business to larger, better integrated, and more efficient markets. As Africa's markets become increasingly open, and African economies grow increasingly interdependent, American private sector interest will naturally grow to take advantage of the region's emerging opportunities. Thank you.

U.S. TRADE WITH SUB-SAHARAN AFRICA
U.S. EXPORTS
($ MILLIONS F.A.S.)

COUNTRY	1994	1995	JAN.-MAR. 1995	JAN.-MAR. 1996
ANGOLA	197.4	259.7	40.6	85.2
BENIN	25.9	34.0	8.7	4.5
BOTSWANA	22.7	35.8	7.1	6.9
BURKINA FASO	7.3	14.6	4.3	4.5
BURUNDI	17.7	2.9	.4	.8
CAMEROON	53.6	45.7	14.6	12.4
CENT. AFR. REPUB.	2.5	6.1	1.4	.8
CHAD	7.5	10.8	4.7	1.0
COMOROS	.1	.7	(Z)	(Z)
CONGO	38.0	54.7	11.8	12.4
COTE D'IVOIRE	111.2	173.2	35.9	32.7
DJIBOUTI	6.7	8.5	1.7	4.0
EQUAT. GUINEA	1.9	5.3	1.4	4.9
ERITREA	8.4	16.7	9.3	3.6
ETHIOPIA	143.1	148.0	33.7	28.1
GABON	40.2	54.3	13.8	16.4
GAMBIA	3.9	6.2	1.4	2.3
GHANA	124.5	167.2	31.0	60.1
GUINEA	49.8	66.6	14.6	30.2
WEST. AFRICA, NEC*	18.6	10.3	2.3	60.5
KENYA	169.5	114.0	32.8	26.2
LESOTHO	3.4	2.0	.2	.1
LIBERIA	46.4	41.7	9.3	19.1
MADAGASCAR	47.9	10.0	2.6	3.6
MALAWI	18.7	17.8	7.6	2.6
MALI	19.0	23.2	4.5	4.9
MAURITANIA	14.0	43.1	16.1	2.0
MAURITIUS	23.8	24.5	4.2	5.8
MOZAMBIQUE	39.4	49.3	9.4	11.2
NAMIBIA	16.3	26.5	9.9	5.4
NIGER	12.0	39.5	2.4	5.7
NIGERIA	509.2	602.2	141.0	187.6
RWANDA	34.8	38.5	2.2	6.6
SENEGAL	42.5	67.9	12.8	16.2
SEYCHELLES	6.1	7.1	.9	1.3
SIERRA LEONE	24.2	18.0	.9	1.3
SOMALIA	29.9	8.1	5.1	5.7
SOUTH AFRICA	2,172.7	2,750.8	612.8	791.5
SUDAN	54.5	43.3	10.5	9.2
SWAZILAND	5.4	3.2	.3	.3
TANZANIA	48.9	66.3	6.8	10.7
TOGO	12.5	18.4	3.0	4.5
UGANDA	27.7	22.1	3.8	5.2
ZAIRE	39.5	77.1	13.7	30.9
ZAMBIA	32.6	49.0	7.2	13.3
ZIMBABWE	92.8	122.0	17.7	25.6
TOTAL	4,424.5	5,406.8	1,180.7	1,568.1

(Z) = LESS THAN $50,000
* INCLUDES GUINEA BISSAU, CAPE VERDE ISLANDS, AND SAO TOME & PRINCIPE

U.S. IMPORTS
($ MILLIONS CUSTOMS VALUE)

COUNTRY	1994	1995	JAN.-MAR. 1995	JAN.-MAR. 1996
ANGOLA	2,061.3	2,236.3	488.7	477.6
BENIN	10.1	10.0	.5	3.7
BOTSWANA	13.7	21.2	3.7	7.1
BURKINA FASO	.4	.4	.2	(Z)
BURUNDI	7.7	20.6	2.3	.5
CAMEROON	55.2	47.7	12.3	15.7
CENT. AFR. REPUB.	.2	.4	.2	.1
CHAD	1.8	3.2	.2	1.1
COMOROS	6.0	2.2	.4	4.6
CONGO	403.0	207.0	42.2	66.5
COTE D'IVOIRE	185.4	214.1	64.9	201.9
DJIBOUTI	.1	(Z)	(Z)	(Z)
EQUAT. GUINEA	.3	31.0	7.6	9.9
ERITREA	.1	.4	.2	1.2
ETHIOPIA	34.1	32.8	2.4	8.2
GABON	1,154.6	1,449.4	310.5	319.3
GAMBIA	2.4	2.3	1.1	.5
GHANA	198.5	196.1	52.2	45.5
GUINEA	92.1	99.0	23.8	27.8
WEST. AFRICA, NEC*	.2	.4	.3	.3
KENYA	108.7	101.5	30.3	26.0
LESOTHO	63.0	62.1	14.2	18.9
LIBERIA	3.5	9.8	1.6	25.7
MADAGASCAR	57.0	57.2	12.2	10.8
MALAWI	56.5	40.9	3.8	14.7
MALI	4.1	5.6	2.6	.4
MAURITANIA	3.5	5.5	2.1	2.4
MAURITIUS	217.1	229.6	53.6	47.3
MOZAMBIQUE	15.3	27.6	.8	3.2
NAMIBIA	27.8	11.5	2.8	2.5
NIGER	2.4	1.6	.2	.2
NIGERIA	4,429.8	4,774.7	1,136.6	1,264.4
RWANDA	1.7	1.9	(Z)	1.2
SENEGAL	11.4	6.5	.9	1.2
SEYCHELLES	2.8	2.4	1.2	.4
SIERRA LEONE	51.2	28.5	9.5	6.1
SOMALIA	.1	.1	(Z)	(Z)
SOUTH AFRICA	2,030.2	2,209.5	489.7	492.6
SUDAN	35.1	22.7	5.4	5.3
SWAZILAND	37.6	32.3	5.1	6.0
TANZANIA	14.9	22.4	7.5	6.1
TOGO	4.1	29.3	26.9	1.5
UGANDA	34.9	13.2	4.9	1.1
ZAIRE	187.7	262.1	67.0	50.2
ZAMBIA	63.5	32.9	6.1	13.5
ZIMBABWE	102.4	97.7	21.9	24.2
TOTAL	11,793.4	12,663.3	2,921.0	3,217.4

(Z) = LESS THAN $50,000

* INCLUDES GUINEA BISSAU, CAPE VERDE ISLANDS, AND SAO TOME & PRINCIPE

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

U.S.-AFRICAN TRADE PROFILE

U.S. Trade with Sub-Saharan Africa
($ Millions)

	1992	1993	1994	1995
U.S. Exports	*5,389.5*	*4,781.5*	*4,424.5*	*5,406.8*
U.S. Imports	*12,070.9*	*12,363.2*	*11,793.4*	*12,663.3*

- U.S. total trade with Sub-Saharan Africa grew ***11.7 percent*** in 1995, following a ***6 percent*** contraction in 1994. U.S. exports expanded by ***22.7 percent*** from the 1994 total, and imports by ***7.6 percent***.

- In comparison, U.S. global trade expanded ***12.7 percent*** in 1995, with total exports growing ***13.6 percent*** and imports ***12 percent***.

- Two-way trade between Africa and the United States reached a new high in 1995, with U.S. exports eclipsing their previous high set in 1992 and U.S. imports surpassing their previous high set in 1993.

- The growth in U.S.-African trade was propelled by a ***26.6 percent*** surge in sales to South Africa, and a partial recovery of sales to Nigeria from their low point in 1994. Exports to Nigeria grew by ***18.3 percent,*** but were still well below their peak of more than $1 billion in 1992.

- The United States is an important trading partner for Sub-Saharan Africa.

  - The United States is Africa's leading market. In 1994, U.S. importers purchased more than ***18 percent*** of Sub-Saharan Africa's total exports. In the period 1992-94, the United States purchased an annual average of ***18.6 percent*** of Africa's total exports.

  - The United States was Sub-Saharan Africa's fifth leading industrial country supplier in 1994, with a ***6.2 percent*** share of the region's total import market. That represents a decline from ***7.2 percent*** and a second place position in 1993.

  - Most industrial country suppliers experienced declining market shares in Africa in 1995, as Africa increased its purchases from low-cost suppliers Korea and Thailand.

Prepared by: *G. Feldman*
Office of Africa
March 1996

- U.S.-African trade results in a major transfer of financial resources from the United States to Africa.
  - Sub-Saharan Africa enjoyed a ***$7.3 billion surplus*** in its trade with the United States in 1995.
  - During the last five years, the cumulative trade imbalance is nearly ***$36 billion in Africa's favor.***

Africa's Major Industrial Country Suppliers

	1992	%	1993	%	1994	%
	($ millions and market share)					
France	7,988	11	6,479	10	6,879	9.7
Japan	5,198	7.2	6,017	9	5,367	7.6
Germany	5,825	8.0	4,804	7.2	5,064	7.1
United Kingdom	4,976	6.9	4,544	6.8	4,860	6.8
United States	5,397	7.4	4,801	7.2	4,436	6.2
Italy	2,422	3.3	2,290	3.4	2,335	3.3

U.S. Exports in 1995

- **U.S. exports to Sub-Saharan Africa totaled *$5.4 billion* in 1995, an increase of $1 billion, or *22.7 percent,* over the 1994 level. 1995 reversed a two-year decline in sales to the region following a seven-year string of increases.**
- **The 1995 export total set a new high for U.S. sales to Africa, barely eclipsing the previous record set in 1992 by $17.3 million.**
- **The increase in U.S. exports was led by a surge in sales to South Africa, which expanded by *26.6 percent* to nearly *$2.8 billion*. Sales of aircraft parts, computers, construction machinery, wheat, and corn registered particularly strong gains. Exports to Nigeria also recovered from their 1994 low point, with an 18.3 percent increase to *$602.2 million*. Strongest growth was registered in submersible drilling equipment, wheat, and petroleum refinery products.**
- **South Africa and Nigeria remained the predominant markets of Sub-Saharan Africa for U.S. exporters. They combined to import *62 percent* of total U.S. exports to the region, compared with *60.6 percent* in 1994.**
- **Sub-Saharan Africa accounts for less than *1 percent* of total U.S. exports. *Yet U.S. exports to the region in 1995 were more than 54 percent greater than our exports to the Newly Independent States (NIS) of the former Soviet Union.***

- *Sub-Saharan Africa was only a slightly smaller market for U.S. exports than the NIS States and all of Eastern Europe combined.*

  - *Manufactured exports* accounted for *84 percent* of total U.S. shipments, and *agricultural exports 16 percent.* Agricultural commodities rebounded strongly from their 12 percent decline in 1994. Sales of farm products totaled *$862.1 million,* an *18 percent* increase. Agricultural commodities traditionally have made up approximately 18 percent of U.S. exports to Africa in non-drought years.

  - Agricultural sales were led by larger shipments of wheat, up *21 percent* to *$296.3 million,* and corn which more than doubled to *$109.3 million.* Rice sales declined *26 percent* to *$72.3 million.*

  - Manufactured exports were led by drilling equipment, aircraft parts, used clothing, dump trucks, computers and peripherals, industrial chemicals, and telecommunications equipment. Agricultural machinery declined *12 percent* to *$94.8 million.*

- Among the leading export categories to Africa are the following:

Item	*1995 Export Value ($ millions)*
Wheat	*296.3*
Oil and gas field equipment	*295.8*
Construction machinery and parts	*261.3*
Computers, peripherals, and software	*244.8*
Aircraft and parts	*238.3*
Motor vehicles and parts	*183.9*
Industrial organic chemicals	*146.5*
Plastic materials and resins	*125.7*
Telecommunications equipment	*123.6*
Corn	*109.3*
Milled rice	*100.7*
Farm machinery	*94.8*
Used clothing and textiles	*80.9*
Mining equipment	*64.8*

- U.S. exports to Sub-Saharan Africa are highly concentrated geographically. Eight countries accounted for more than 80 percent of U.S. shipments to the region in 1995.

- South Africa alone purchased nearly **$2.8 billion** of U.S. exports, or more than half of total U.S. sales to Sub-Saharan Africa.

- *South Africa's market for U.S. exports is roughly equal in size to that of Russia, and is larger than all the countries of Eastern Europe combined.*

Country	1995 Export Value ($ millions)
South Africa	*2,750.8*
Nigeria	*602.2*
Angola	*259.7*
Cote d'Ivoire	*173.2*
Ghana	*167.2*
Ethiopia	*148.0*
Zimbabwe	*122.0*
Kenya	*114.0*

U.S. Imports in 1995

- U.S. purchases from Sub-Saharan Africa totaled $12.7 billion in 1995, a *7.6 percent* increase from 1994.

- Crude oil accounted for *$8.5 billion,* or two-thirds of total U.S. imports from the region.

  - Sub-Saharan Africa supplied nearly *22 percent* of total U.S. crude oil imports in 1995, up from *20 percent* in 1994, and equal to Africa's share in 1993.

  - Nigeria supplied *$4.6 billion* of U.S. crude oil imports, an increase of *9 percent* from 1994 but substantially below the levels of the early 1990's when Nigeria was the number two crude oil supplier to the U.S. market. For the second consecutive year, Nigeria was our fifth leading oil supplier. Angola *($2.2 billion)*, Gabon *($1.4 billion)*, Congo *($156 million)*, and Zaire *($127 million)* also ranked among the United States' top 21 suppliers of crude oil.

- Principal U.S. imports from Africa were as follows:

Item	1995 Import Value ($ millions)
Crude oil	*8,473.7*
Non-ferrous metals	*1,003.0*
Precious and semi-precious stones	*374.6*
Ferroalloys	*267.3*
Cocoa beans	*173.8*
Men's and boy's shirts	*153.6*
Coffee	*93.9*
Forestry products	*87.5*
Natural gas liquids	*86.3*
Beet and cane sugar and byproducts	*53.0*

- U.S. imports from the region were concentrated among a small number of African suppliers, even more so than U.S. exports. Four countries accounted for ***84 percent*** of U.S. purchases. Three were major oil exporters, while South Africa was a principal supplier of non-ferrous metals.

Country	1995 Imports ($ millions)
Nigeria	*4,774.7*
Angola	*2,236.3*
South Africa	*2,209.5*
Gabon	*1,449.4*

- Utilization of benefits under the *U.S. Generalized System of Preferences (GSP)* by eligible African countries increased in 1995 by nearly half to ***$492 million,*** from ***$332.1 million*** in 1994. The increase occurred despite suspension of the GSP program at mid-year due to lapsed legislative authority. The 1995 increase followed a ***136 percent*** surge in 1994, when South Africa became GSP eligible for the first time.

- South Africa continued as the principal utilizer of GSP benefits in 1995, claiming ***72.5 percent*** of the total for Sub-Saharan Africa.

- Leading GSP items were: ferrochromium, ferrosilicon manganese, cane sugar, parts of machinery for ore processing, jewelry, and animal skins.

- Despite the increase in overall GSP utilization in 1995, the program grew even more concentrated among a small number of African beneficiary countries. Five countries accounted for more than ***92 percent*** of total GSP benefits in Sub-Saharan Africa. Africa's leading GSP beneficiaries were as follows:

Country	1995 GSP Benefits ($ millions)
South Africa	*356.6*
Zimbabwe	*53.2*
Mozambique	*20.1*
Swaziland	*13.0*
Mauritius	*10.5*

U.S. Investment in Africa

- At year-end 1994, the *U.S. direct investment position*[1] in Sub-Saharan Africa was *$3,672 million*. *$1,044 million* of the position was in South Africa, *$567 million* in Angola, and *$402 million* in Nigeria.

- U.S. direct investment in the region is concentrated in the petroleum sector, although the position in South Africa is mostly in manufacturing.

- U.S. direct investment in Sub-Saharan Africa by non-bank U.S. affiliates generated *net income* of *$1,092 million* in 1994, a *30 percent return on book value. This compares with an 11 percent return on book value for the U.S. direct investment position worldwide, 14 percent in Latin America, and 12 percent in Asia and the Pacific region.*

- U.S. direct investment in Africa consistently generates high rates of return. *During the period 1990-94, the average annual return on book value of U.S. direct investment in Africa was nearly 28 percent, compared with 8.5 percent for U.S. direct investment worldwide.*

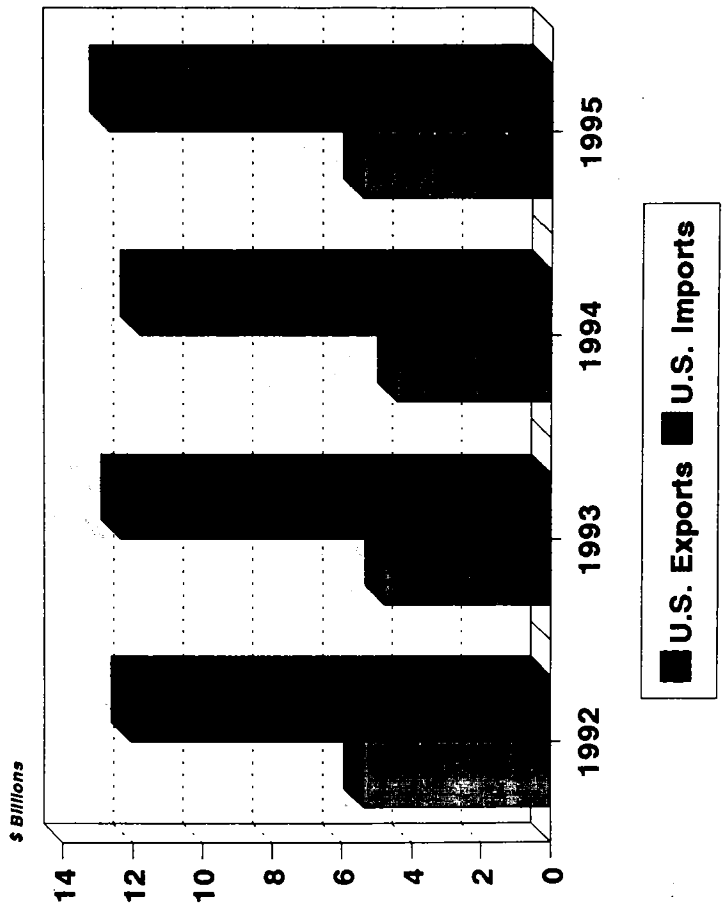
- According to preliminary estimates of U.S. direct investment abroad in 1993 by the Department of Commerce Bureau of Economic Analysis, U.S. non-bank affiliates in Sub-Saharan Africa reported *total assets* of *$12,703 million*, of which *$3,767 million* were in Nigeria and *$2,925 million* in South Africa.

- U.S. non-bank affiliates in Sub-Saharan Africa had *$12,907 million* in worldwide sales and approximately *$887 million* in net income in 1993.

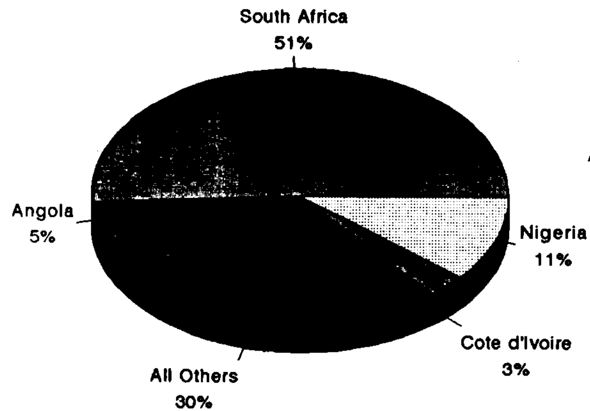
- *$400 million* of U.S. merchandise exports were shipped to U.S. majority-owned non-bank affiliates in Africa, including those in North Africa. The United States imported *$3,099 million* from these affiliates, mostly crude oil.

The U.S. direct investment position is the net book value (i.e., the historical value) of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates. A foreign affiliate is a foreign business enterprise in which a single U.S. investor owns at least 10 percent of the voting securities, or the equivalent.

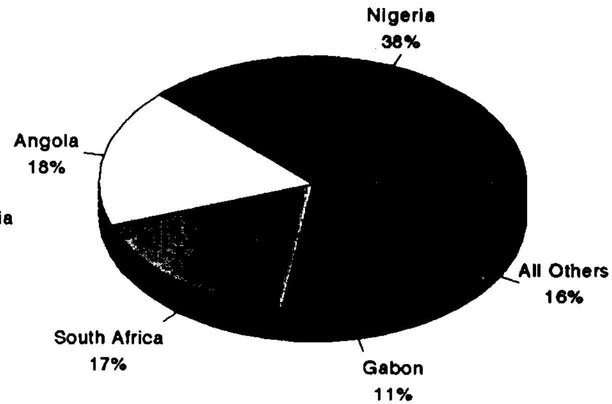
U.S. TRADE WITH SUB-SAHARAN AFRICA



PRINCIPAL U.S. TRADE PARTNERS IN AFRICA
1995



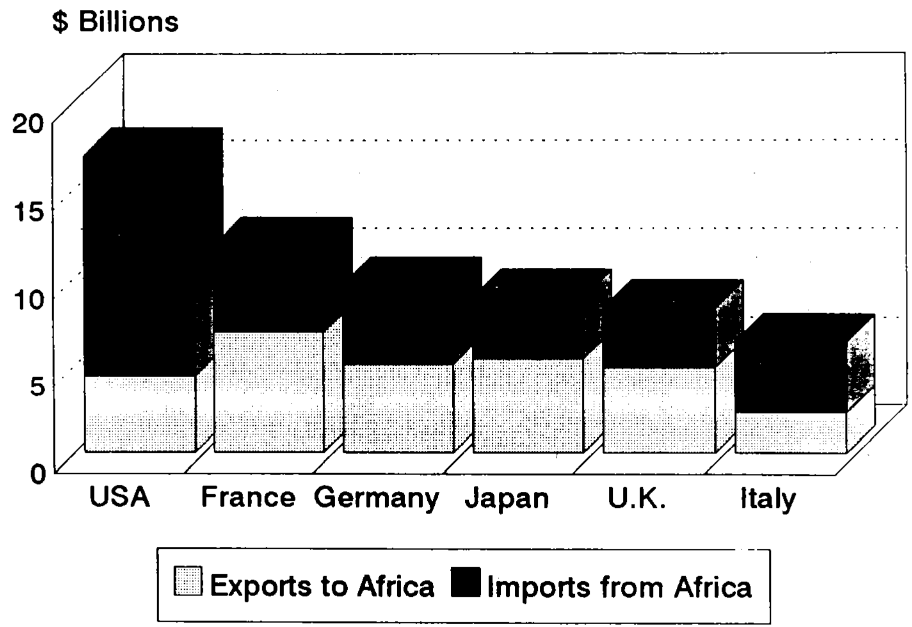
Destination of U.S. Exports



Source of U.S. Imports

AFRICA'S PRINCIPAL TRADE PARTNERS, 1994

Industrial Countries



Source: IMF Directions of Trade

American Apparel Alliance
NKSA AACA

July 30, 1996

Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives

Re: U.S. Trade with the countries of Sub-Saharan Africa

This statement is submitted for the record in connection with the hearing schedule for August 1, 1996 as announced in Subcommittee on Trade press release No. TR-26.

This comment is filed on behalf of the American Apparel Alliance, comprised of the National Knitwear and Sportswear Association, a national trade association headquartered in New York City, with more than 200 members in more than twenty states, and the American Apparel Contractors Association, headquartered in Atlanta Georgia and having more than three hundred members in thirty states.

The American Apparel Alliance is supported in these comments by the Atlantic Apparel Contractors Association representing additional contractors in the New Jersey and Pennsylvania area, and by the Korean Apparel Manufacturers Association of Greater New York, representing some 450 companies in New York and New Jersey.

These companies are engaged in the production of apparel in the United States, involving virtually every type of garment, both knit and woven, and in related industries including knitting, dyeing yarns, sewing and assembling of garments, designing garments, dyeing garments and providing fashion and related services to the industry.

In recent weeks, there has been a brief semblance of public discussion of special legislation to provide trade benefits for some African countries. Among the benefits to be proffered, by those making donations of US trade benefits on behalf of interests not clearly identified, are quota free access for apparel in amounts allegedly to be "capped" at $3.5 billion annually. This, we are given to understand, will assure that there is no damage to American textile interests. (Daily News Record, June 1, 1996)

We wish to record our most vehement objections to any such legislation as it might affect apparel or apparel related products.

American apparel imports, under current legislation and international agreements, already exceed exports by more than $34,000,000,000 annually. Yes, net imports of apparel exceeded thirty four billion dollars last year, and they are generally rising. The quota system, designed to "protect" domestic apparel markets from disruption due to low cost imports, is being phased out, and already has large gaps created by existing policies to favor certain countries.

These favored countries export massive quantities of goods to the US causing substantial displacement of domestic firms and workers in competing products. In some cases, the importing firms are also partly domestic producers, or were domestic producers until they closed operations and moved them offshore. As the import pressures increase, the lure of offshore production grows, the larger firms move labor intensive production off shore, causing dislocation in the U.S. and additional competitive pressure on smaller domestic firms not enjoying the advantages of cheap labor in their offshore factories.

These developments have occurred under the operation of the GALs exception to the quota program, which was devised as an aid to the economic development of the Caribbean. It has helped the Caribbean countries at the direct expense of workers and smaller firms in the U.S.

Apparel is a highly labor intensive industry, and it is heavily affected by wage based competition. In the U.S., approximately 67,000 workers are required to produce each one billion dollars in apparel (measured by domestic shipments)[1] and US apparel producers are as efficient in their use of labor as any in the world. By that measure, $3.5 billion in imports would equal the production of 233,000 workers. But that measure likely is too conservative.

Simple logic indicates that lower wages offshore would yield more units of apparel per dollar spent than would be the case in the US, else why bother importing? If that margin is ten percent, then the displacement would be not 233,000 but 1.1x233 or 256,000. In short, the dollar spent on cheap labor buys more units, but units displace units on a one for one basis. The impact of $3.5 billion on a market already reeling from massive volumes of imports would be no less than catastrophic for smaller companies already hard pressed by permitted exports from the CBI, Asia and elsewhere, not to mention NAFTA.

A special program for Africa would heavily impact minority workers in the United States, as the garment industry is known as an entry level employer that relies on a work force that contains a substantial representation of blacks, hispanics, and Asians.

Furthermore, opening the doors to apparel from Africa, Sub-Saharan or otherwise, would encourage still more transshipments of goods emerging from China. (Those, of course, would still be subject to quota if honestly identified as being from the PRC.) Customs now has its hands full attempting to deal with the Chinese apparel flood coming into the United States through the Caribbean, Panama, and even Mexico; adding to the tide by exempting apparel from Africa would swamp the system and make a mockery of the remaining years of the textile/apparel import control program.

More basic, however, is the shocking combination of bad ideas embodied in this announced package. The idea of deciding to give away $3.5 billion in domestic jobs while simply asserting that "it should have no impact on the U.S. textile industry" is bad enough by itself. It is ignorant of the facts. Combine this with the idea of choosing for the "donation" list an industry whose firms have already lost some 100,000 jobs in the past year and whose workers are frequently minority people with limited skills, many of whom are located in parts of the country where alternative employment opportunities for people of their skill levels are scarce, and the message from the Congress is one of disdain for American workers. The public that is unhappy to spend their dollars for foreign aid is still less likely to accept having their jobs exported as a substitute.

No legislation should be considered which increases the flow of apparel into the United States. Existing agreements have already opened the doors too far, and the damage is being felt throughout the industry. Enough is enough.

Thank you for including this statement as part of the record of these hearings.

Seth M. Bodner, Executive Director
National Knitwear and Sportswear Association

NKSA, 212-683-7520; fax 212-532-0766
American Apparel Contractors Association, Sue Strickland, Executive Director, Atlanta, Ga. 404-843-3171; fax404-256-5380
Atlantic Apparel Contractors Association, Arnold Delin, Executive Director, Bethelehem, PA. 604-861-7717; fax 610-861-8069
Mr. Chong E. Hwang, Korean Apparel Manufacturers Association of Greater N.Y.
548 8th Ave. NY, NY 10018 212-714-1530; fax 212-714-0116

[1] 750,000 workers in 1995 against US production valued at some $50 billion..

[BY PERMISSION OF THE CHAIRMAN]

"U.S. TRADE WITH SUB-SAHARAN AFRICA"

COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON TRADE
U.S. CONGRESS, CAPITOL HILL, WASHINGTON, D.C.
TUESDAY JULY 16, 1996

STATEMENT BY H.E. EKWOW SPIO-GARBRAH
GHANA'S AMBASSADOR TO THE U.S.A.

Good Morning, Ladies and Gentlemen,

I would like to express express appreciation to the President of the United States, the Administration as a whole and Congress for the initiatives that led to the development of a Comprehensive (United States) Trade and Development Policy for Africa.

In the last few years we have seen a growing number of African leaders come to the White House for discussions, including I must say, the President of Ghana, President Rawlings. Several high-level officials of the Administration, including Vice President Gore, as well as Senators and Congressmen and women have visited various African countries. We have witnessed the organisation of a White House Conference on Africa, and follow-up conferences and seminars sponsored by the State and Commerce Departments. We have noted the development of greater inter-agency cohesion in thinking about Africa, from the State, Commerce, Treasury and Energy Departments, as well as from USAID, OPIC, Eximbank, TDA, and other agencies. Above all, Secretary Brown's extraordinary efforts in promoting U.S. business interests around the world was poignantly evident in Africa as well. So many were the friends he made in Africa in such a short period of time that we must dedicate to his eternal memory efforts to develop a greater business partnership between Africa and the United States.

As a representative of an African government, I can say that this renewed U.S. interest in Africa's development marks a major milestone in the U.S.-Africa relationship. And in our view, the Administration's 1996 Trade and Development Policy report must be assessed and evaluated, supported and improved, enhanced and modified within this overall context of progress.

It takes no major expert on U.S. trade or development policy to recognize that the Adminstration's 1996 Comprehensive Trade and Development Policy report devotes greater space to a recapitulation of current U.S. trade and development policies, practices and programs in Africa than to any new initiatives and proposals. But the mere success of the Administration in compiling into one document the essential roles and activities of the many departments and agencies which impact Africa's developmental process is most welcome--at least as a valuable reference document. And to be sure, the report goes beyond the obvious trade liberalization, financial flows, investment promotion, and multilateral development bank issues, and manages to mention food and agriculture, water and energy resources, health and education, transport and telecommunications, and the obligatory reference to better governance, transparency and accountability.

Beyond that the document does propose a number of worthy initiatives in many of these areas, even if the perceived lack of resources may have limited many of the proposals to that of expanding and deepening current programs.

If some Africans and Africanists are less than satisfied with the report it may be due simply to the fact that such analysts may have misconstrued the purpose of the report and had hoped to find major new initiatives and proposals on how the United States was going to help to develop Africa, or at least to limit the extent to which current policies do not encourage Africa's indogenous and indegenous development. Given that this report is only the first of five annual reports mandated by Congress to be submitted by the President under section 134 of the Uruguay Round Agreement Act, it is our fervent hope that future reports will be devoted less to the restatement of historic facts and figures, and more to proposals to help change those facts and figures which have hindered Africa's fuller and faster development. Having said that, we should also agree that the primary responsibility for proposing trade and development policies that are in the interest of Africa lies in the hands and brains of Africans.

We recall the words of the late Commerce Secretary Ron Brown when he declared that "the United States shall no longer concede the African markets to her European Allies". In light of this, Africans should not be surprised if the United States concentrates its efforts on promoting its own trade objectives and exports. But I am here as an African to suggest that while we understand the U.S.'s preoccupation with its interests, we would like to assist in the production of a trade and development policy whose primary emphases are on how to level the playing field for Africa in international trade, how measures may be taken to boost Africa's exports and integrate Africa's economies, initiatives to eliminate Africa's debts, how U.S. guarantees may be used to finance Africa's infrastructure, how to promote the relocation to Africa of some of America's non-competitive industries, how to encourage Africa's important human resources in the U.S.A to help in Africa's development, and how the U.S. public and private sectors, NGOS, PVOs, religious organisations, media institutions can help to develop a real constituency for Africa and help to change Africa's negative image in the United States. Hopefully, the U.S. and Africa can jointly develop a policy with programs that are mutually beneficial.

For all these reasons, many African thinkers believe that that it is long overdue for the leaders of the United States and Africa to sit down at summit level---much as the U.S. does with the G7 (now the G8), and has done with Asian Pacific leaders and Latin

American leaders--to reflect on our past and current relationship, and together map out a new relationship based on mutual respect, fairness, equity, and a stronger sense of partnership. A donor-recipient relationship that usually favors the donor through an asymmetrical reciprocity in trade policies, the disproportionate strength of the donor, and an unequal playing field, is more likely to lead to dependency than to development, as many U.S. domestic welfare recipients may know too well. A relationship which has led to a point where the most sacred process of self-government for even a parochial club or a village association--that of an entity's ability to choose its own leaders-- has now become an area for the supervisory intervention of donor authorities, needs very urgent and significant rethinking. Mark you, many African societies have been electing traditional rulers without foreign supervision for centuries.

HOW AFRICA HAS BENEFITED FROM U.S. FOREIGN AID

There is no question that for many African countries various kinds of foreign assistance have been beneficial to them insofar as such assistance, especially of the humanitarian and emergency food aid variety, has saved lives and made a difference between precarious existence and improved life expectancy. From adult education, to new agricultural techniques, and from family planning programs and products to environmental protection assistance, U.S. development assistance, alongside support from other donor countries and agencies, has played a significant role in shaping Africa's current economic profile and developmental landscape. Even more important in recent years has been the role of U.S. funding to multilateral institutions like the World Bank, the African Development Bank Groups, the specialized U.N. agencies, and bilateral U.S. support for economic reform programs in Africa. But this is the very reason why the U.S.A. must be more forthcoming and more prompt in its subscriptions to multilateral agencies.

In some African countries, U.S. assistance has provided a timely bridge that has allowed structural adjustment reforms to take hold while mitigating the social and other costs of adjustment. For these reasons, we urge that such assistance be continued for those countries whose specific circumstances warrant them, with such modifications in project implementation, consultancy and procurement as we shall soon address. And, even for countries that may prefer a shift in emphasis to investment and export support, we do not suggest any immediate or drastic curtailment of traditional U.S.A.I.D programs, but rather a phased-in transition to more market based arrangements supported by a larger pool of U.S. public and private sector funds.

The point must, however, be made that foreign aid has never been intended to be purely altruistic. It is recognized the world over as an important lever, or indeed part of the arsenal, of big-power diplomacy. Above all, U.S. development assistance has been as much domestic assistance for U.S. benificiaries as it has been foreign aid, seeing that it has created numerous jobs for American consultants, contractors, and suppliers. For every dollar the U.S. contributes to the World Bank or the African Development Bank, for example, it has received many multiples in return through contracts and procurements. Furthermore, development asssistance has provided a critical vent for the distribution of surpluses from U.S. farms and service firms, and has contributed to the proliferation of NGOs, PVOs, and even religious organisations which have now assumed central roles in the development business. Above all, food aid in particular, has created and sustained new markets in Africa for the U.S.A. by exposing consumers in Africa to U.S. foods such as powdered milk, wheat and rice. Those consumers who have acquired a taste for such goods continue to demand their import even when foreign assistance has been removed.

This is why we must agree that foreign aid can be an important complement to the reconstruction efforts of countries that are on their knees, whether this is due to internal mismanagement, conflicts, or the legacy of colonialism and external interventions. But for those African countries that have developed economic teeth, the infant formula of foreign aid must change. And as the infant begins to walk and run, so must the kind friendship offered by its bigger brothers and sisters go beyond supplying the dependency-inducing pacifier of traditional aid. It is for this reason, that many African countries now welcome initiatives that will help to make the dwindling U.S development assistance more effective than it has been so far.

SPECIFIC INITIATIVES TO INCREASE AFRICAN TRADE AND INVESTMENT OPPORTUNITIES

Recognizing that foreign assistance resources are declining and that developed countries have not been able to meet their commitments of aid flows to Africa, my specific recommendations are compatible with current or even declining levels of assistance.

First, for those countries that are just emerging from major internal conflicts and natural disasters, traditional aid programs should be continued to provide humanitarian and reconstruction assistance for basic human needs like food, clothing, shelter, basic education, adult literacy, job training, agricultural infrastructure, and low-technology energy and water resources.

Second, for those countries whose aspirations and levels of economic growth justify it, foreign assistance funding should be directed at creating seed capital and leverage in the financial markets to fund United States and African private and public sector joint-ventures. This way one U.S. tax dollar can help to mobilize multiples of private sector funding for income-generating, job-creating enterprises in Africa, especially those that will encourage Africa's economic integration. The U.S. domestic economy is replete with such public-sponsored enterprises and institutions in the financial services, housing, agriculture, energy, transportation and other sectors. In this respect, the charter and or internal rules and practices of the Overseas Private Investment Corporation (OPIC) and the U.S.A.I.D. could be modified to permit them to make more equity investments in Africa, either directly or through more of such laudable initiatives as the Africa Growth Fund.

Third, aid should aim at enhancing the capability and capacity of African firms and individuals, who should play a more visible and central role in the initiation, appraisal, implementation, supervision and monitoring, of the programs and projects of donors as contractors, suppliers and consultants. Africans should benefit directly from increased allocations of the contracts given out by the USAID, the Trade Development Agency (TDA), the World Bank Group, the African Development Bank, and U.N. specialized agencies.

Fourth, the United States Government should provide other incentives such as guarantees to encourage more U.S. financial institutions to locate subsidiaries in African countries, or set up joint-ventures there, to facilitate the inflow of capital funds to Africa. Africa needs the international equivalents of the U.S. Small Business Administration and the Minority Business Development Agency. The current policies under which EXIMBANK, for instance, requires the governments of developing countries or relatively fragile financial institutions in those countries to counter-guarantee payments to it for U.S. exports of capital goods reduces considerably the opportunities for U.S. exporters in Africa. If U.S. Trade Policy aims at enhancing U.S. exports, EXIMBANK's financing should not be counter-guaranteed by African entities. Such counter-gaurantees, even as contingent liabilities, add to Africa's nominal debt obligations.

Fifth, U.S. companies must be encouraged to undertake projects in Africa that will add additional value to raw materials on the African continent and those that will help integrate Africa's economy. The new U.S.-Africa partnership must provide incentives for U.S. companies to go beyond merely supplying equipment to African industries to becoming equity partners in African projects. Merely tinkering with the current global trading system will do very little for Africa. Even a World Trade Organisation, which aspires to level the playing field for international commerce, will succeed principally only in opening up African markets for foreign goods. To the extent that Africa continues to be a raw materials exporter, marginal reforms in the international trading regime will have minimal impact on Africa's export value growth. What is called for are U.S. govcernment incentives to U.S. companies to support Africa's own long-standing efforts at regional integration, which after all will help U.S. firms invest in and export to much larger markets.

Sixth, a new U.S.-Africa partnership must emphasize scientific and technical cooperation. This could occur through a better and more effective mobilization of the expertise, resources, research data and manpower of such technical departments as the Departments of Energy, Transportation, Agriculture and Interior, and in conjunction with relevant scientific foundations, institutes and Universities, U.S. science and technology can help Africa modernize its indigenous technologies for greater manufacturing and raw material processing. Ghana, for example, has a Council for Scientific and Industrial Research and several scientific-sector research institutions which could benefit from closer collaboration and support from U.S. institutions. Recently, Ghana has passed a new Investment Promotion Centre Act and a Free Zones Law that has created enormous new opportunities for technology-based export processing that would be ideal for many U.S. firms. In this regard, U.S. incentives, such as foreign investment tax credits, to American firms to relocate non-competitive American industries in Africa, could form part of the novel contract with America that Africa seeks. This would be no different from the public-sector incentives provided to U.S. firms to invest in depressed urban centers.

Seventh, Africa, particularly Ghana, has a wealth of human resources scattered worldwide, including throughout the United States. These constitute the veritable intellectual property of Africa. The new U.S. Trade and Development Policy should devote some ideas and resources to schemes that will encourage these professionals to offer their services to African countries. U.S. development agencies, and the multilateral bodies the U.S. helps to fund, could be specifically tasked to ensure that qualified Africans in the diaspora are included in contractual and consultancy assignments managed by these agencies. Programs could be eatablished to transfer to African countries part of the taxes paid by these high net- worth individuals, without which the U.S. is imposing double taxation on African countries: the first tax occurs when needy African countries spend their hard-earned dollars to educate and train their populace; the second tax occurs when these professional emigrants to America pay taxes to the United States instead of to the countries which helped to educate them. Ways must be found to help African governments to effectively mobilize and harness these human resources for their development. U.S. green card lotteries aimed at recruiting qualified Africans for the U.S. economy, for instance, must be monitored as part of a new international trade in human services. This U.S. immigration policy and practice has the effect of further taxing Africa's economy without the payment of commensurate intellectual property rights to African governments.

Eighth, beyond broad trade and development policy reforms, any new initiatives should also address the fine print of internal bureaucratic rules and procedures of U.S. development agencies which often tend to undermine otherwise noble goals and objectives.

Administrative bottlenecks and barriers faced by some African agricultural exports at U.S. ports and cstoms bonded warehouses are a case in point. Many of these barriers may be due more to prejudicial judgements or overzealousness on the part of individual customs officials rather than to non-compliance by African exporters with U.S. laws and standards. The Overseas Private Investment Corporation (OPIC), for example, could be given the necessary mandate to become a far greater equity investor in Africa than is currently the case.

Still in the area of market access, we note with concern the virtual suspension of the U.S. Generalized System of Preferences. While requesting that the new system should institutionalize the G.S.P., allowing for graduation, we suggest that the GSP should be expanded to cover more processed goods that in no way threaten U.S. domestic production.

Ninth, both the United States and African countries recognize that trade and development are impossible without political stability. Stable economic development in Africa will not only alleviate poverty, but will also provide a buffer against acts such as terrorism, refugee flows, narco-trafficking and environmental degradation, that threaten the security of the United States and stable countries in Africa such as Ghana. Any serious U.S. Development Policy should therefore incorporate provisions that allow for a rapid and early U.S. response to helping to resolve conflicts and cross-border crime in Africa. The implementation rules for the utilization of peacekeeping funds in Africa, by ECOMOG in Liberia for example, should be modified to enable poorly-endowed troops to have quicker and direct access to promised vehicles, aircraft, equipment, communications, logistics and intelligence.

Tenth, and on another note, Africa's development and trade prospects are very much dependent on the creation in the United States and especially in the minds of potential businessmen and tourists of a more balanced image of Africa as a continent with many countries, most of which do not suffer from the major trials and tribulations that top the menu of the American media diet. While improving Africa's image is primarily an African responsibility, we welcome the support of the U.S. public sector in providing some assistance for promoting business opportunities in Africa to American businessmen. Few Americans realize that U.S. firms are aware that U.S. firms receive on average a 30% return on their investments in Africa versus an average of about 12% in other developing regions of the world. In this respect, resources for conferences, publications, electronic information and other export and investment promotion activities that support Africa could be provided through many creative applications of U.S. aid. As the African and American private sectors attempt to collaborate closer together, they need to do so in a news environment which is not so hostile to Africa's prospects.

Eleventh, by indicating that Africa's private sector needs greater U.S. support, we do not intend to suggest that governments in Africa are to atrophy and wither away. Rather, while governments may need to become leaner they also need to be stronger and quicker and be endowed with new technologies, systems, procedures, and work ethics that will permit them to better monitor, guide and oversee the activities of the private sector. More effective tax collection, quicker judicial proceedings, prevention and early detection and prosecution of white collar crime, the ability to develop and implement social safety net programs, and superior policy analytic skills all call for governments whose capacities for decision-making should be significantly enhanced. In an information-technology driven world, U.S. development assistance can and should go toward strengthening leaner African governments.

Above all, U.S. trade and development policy should help to improve Africa's tax base through creating more productive private sector enterprises and greater employment. Facilitating the ability of African companies to list on U.S. stock exchanges, for example, will open up a whole new world of private capital for African development. This will enable African governments to maximize revenues with which to attend to the more basic responsibilities of government. Given higher domestic production and revenues, African countries can take full charge of activities such as providing ballot boxes and papers and supplying voter registration and identification cards, making it absolutely unnecessary for aid agencies to become involved in this most fundamental aspect of sovereignty and self-government.

Twelfth, no development policy for Africa is likely to be sustainable while Africa carries a debt burden of some $330 billion. This overhang, and the exigencies that come from high interest and principal payments, skews Africa's budgetary priorities and its financial and investment planning capabilities. In this context multilateral bank debt must be on the table of negotiations.

Finally, we note that the President Clinton's policy proposals emphasize that the United States will focus its support on those countries that are pursuing meaningful structural adjustment and economic reform and that also have made the hard but correct choices on democracy, human rights, transparent and accountable governance, investment in people and protection of the environment. Ghana is a country that has made these right choices and is therefore richly deserving of maximum support from this Congress in its economic development efforts. The Ghana Government has specific programmes that target joint U.S.- Ghanaian public and private sector investments in independent power production, mining, energy development, agriculture including fishing, telecommunications and banking and financial institutions.

What Africa needs today is not someone who can give it fish to eat, so it can ask for more fish each day. All Africa is asking for is a friend who can teach it to fish better, so it can feed itself forever. We welcome the efforts of Congress and the Administration to fashion a new relationship with Africa and pledge our readiness to work towards mutually beneficial goals. We urge Congress to invent new paradigms and programs and to enact new laws and encourage new administrative and operational rules that will lead U.S. public agencies to work more closely with the American and African private sectors to promote Africa's development while strengthening Africa's leaner governments.

Thank you.

JEFFERSON WATERMAN INTERNATIONAL

July 30, 1996

The Hon. Phil Crane
Chairman
Subcommittee on Trade
Committee on Ways and Means
1104 Longworth House Office Building
Washington, DC 20515

Dear Chairman Crane:

Thank you for providing an opportunity to submit a statement on the US/Sub-Saharan Africa trade relationship. As a former Commerce Department Desk office for 12 southern African countries, and as a former Peace Corps Volunteer from Botswana, I have a deep, personal perspective on African economic and private sector development.

I congratulate the Subcommittee on holding hearings on US/African trade relations, and commend it on its initiative in creating a comprehensive trade and investment strategy for Africa. I would like to further applaud the work of Congressman McDermott -- a member of the full Committee -- for his work on launching and sustaining a Congressional-Administration dialogue on trade-based economic growth in Africa.

The hearings you are holding are timely. Commerce Department figures reveal that trade between the United States and Africa hit a new high in 1995, with combined trade flows exceeding $18 billion. US investment also appears on the increase with the US direct investment position in Africa reaching $3.6 billion by the end of 1994. Finally, democratic traditions and market oriented systems are on the rise on the continent as roughly two-thirds of the countries are now undertaking some form of political or economic reforms.

But these successes, while impressive from African standards, inspire little interest in US firms consumed with the Asian Tigers or the Big Emerging Markets. Total US/Africa trade has been largely flat for the last decade. The 1995 levels stand at only 16 percent above the levels for 1989. Total investment in the region is also low, when compared to just about any other region in the world or even to Africa in the era before the imposition of sanctions against South Africa.

Moreover, while there may be hope for continued economic growth in Africa, and between African countries in the United States, there persist a number of constraints that threaten to hobble any sustained expansion of US/African relations. Efforts at capital formation in many of the countries have been stalled as investor confidence remains low and as economic reforms remain incomplete. While the rewards of doing business in Africa can be lucrative -- the Commerce Department estimates that US investments in Africa yield an average 30 percent return compared to worldwide returns of 11 percent -- the risks often frighten all but the most committed away. Moreover, the fragmentation of the continent into 48 national markets, the lack of solid commercial information, and the practice of servicing Africa from European subsidiaries further weakens the interest of US-based corporate planners.

The cumulative effect of this constraints is evident when the United States is compared with other major trading partners. At the end of 1994, the United States was the fifth largest supplier to Africa, trailing after Japan and three European countries. Without a determined effort to change the way corporate America looks at Africa, US market share in Africa will continue to lag.

The US Government can play a vital role in redirecting interest to Africa. You and Congressman McDermott have already identified several important ways of raising the profile of Africa. You rightly identified the lack of finance as one of the biggest problems facing Africa, and proposed establishing several ways to enable African countries to gain access to private sector funds and government export guarantees or develop the export industries to earn more foreign exchange. You also focused on mechanisms to restrict those programs to the those countries that have undertaken economic reforms, including privatization; taken credible steps to reduce their debts to manageable levels; and established greater transparency. Taken together, your proposals lay a solid foundation for sorely-needed infrastructure improvements, enhanced regional integration, and trade based growth that are the hallmarks of sustained economic development.

But while the debate has thus far focused on the tangible role of the US government in stimulating capital formation, it has largely neglected the intangible roles -- such as the advisory and consultative services of the US Government -- that are often just as important. In fact, those roles have been largely neglected in Africa for several decades as other more priority regions of the world gain more resources and attention.

The best example of this is the lack of priority that the Foreign Commercial Service (FCS) places on Africa. The US Commerce Department staffs foreign commercial service posts in roughly 70 countries around the world, but staffs only four posts in sub-Saharan Africa. In fact, there are currently more commercial service posts in Germany, than in all Sub-Saharan Africa. This means that commercial functions in non-FCS posts are staffed by State Department officers, many of which are either not trained in commercial matters or are not interested.

The Administration's recently released Trade and Policy Development Report for Sub-Saharan Africa justifies the minimal foreign commercial presence by claiming that its FCS posts in Nairobi, Abidjan, and South Africa are "regional" posts. While this "regionalization" excuse confirms there is a problem with a lack of coverage, it does little to rectify it. FCS officers have a hard enough time developing the contacts and know-how to make them effective in one country or city. When they are required to spread themselves to an additional 12 to 15 countries, even with the support of the Embassy economic section in those countries, this level of commercial representation becomes token at best.

Not only does this pattern of post allocation send a clear message that US priorities are not in Africa, but it also hinders the ability of US firms to develop a presence in many African countries. FCS posts play an important role in providing information and in helping US firms introduce themselves to a new country. For a country like Germany, where sources of commercial information abound, such a service is hardly needed, and may crowd out similar private sector activity. For countries like Ghana or Guinea, where such information is scarce and where the business customs are less well-known, the presence of reliable commercial support from the US Embassy can be critical to getting a deal started and seeing it closed.

Unfortunately, this apparently lack of interest often goes to the top. The late Commerce Secretary Ron Brown made several trips to Africa to promote stronger US/African ties. Before that the previous Commerce Secretary to visit Africa was Malcom Baldridge, who visited Africa in the 1980's. At an even higher level, the trend becomes more pronounced. Aside from a visit by President George Bush to the US troops in Somalia during the lame duck period in his presidency, no sitting US president has gone to sub-Saharan Africa since President Jimmy Carter became the first US president to visit that region. To be fair, however, Africa does seem to be popular among Vice Presidents. Vice President Gore has made several trips to Africa, as did Vice Presidents Dan Quayle and George Bush.

Similarly, Congress is often an accomplice in this lack of attention in that it focuses insufficient resources to economic successes in Africa. All too often, Congressional hearings focus on the problems in Africa -- AIDS, underdevelopment, wars, poverty, or refugees -- without taking the time to tease out the good news from that continent. In the past five years, there have been dozens of hearings bemoaning the lack of democracy in Zaire or condemning the ethnic strife in Burundi and Rwanda, but there have been only a handful of hearings extolling the accomplishments of the private sector. In contrast to the endless parade of resolutions condemning the regimes in Nigeria and other less than democratic places, there have been few, if any, resolutions praising the sound economic stewardship of Botswana or Swaziland.

As you move forward on your plans to develop a comprehensive trade and investment strategy for Africa, I would encourage you to address some of the intangible aspects of that policy. ***At the very least, I would hope that additional FCS posts could be opened in Africa to expand the US Commerce Department presence there.*** It is vital that any policy in support of a US/African trade partnership be deployed through all available means while demonstrating the clear, and unambiguous, endorsement at all levels of government.

Thank you for considering these views.

Sincerely,

Stephen E. Lamar

Stephen E. Lamar
Vice President

[BY PERMISSION OF THE CHAIRMAN]

EMBASSY OF THE REPUBLIC OF MADAGASCAR
2374 MASSACHUSETTS AVENUE, N.W.
WASHINGTON, D. C. 20008

TELEPHONE (202) 265-5525
FACSIMILE (202) 265-3034

WRITTEN STATEMENT BY THE ECONOMIC COMMITTEE OF THE AFRICAN AMBASSADORS GROUP TO THE HEARING ON U.S. TRADE WITH SUB-SAHARAN AFRICA SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS AUGUST 1st, 1996

AFRICAN AMBASSADORS PERSPECTIVE ON US/AFRICA TRADE RELATIONS

INTRODUCTION

As the world comes to the close of the first decade since the end of the Cold War, Africa finds itself in an extremely difficult situation as it struggles with changes taking place worldwide and within the continent itself. While the continent appears increasingly at the brink of being excluded from effective participation in international trade and global economy, facts suggest that today's world has become a small global village where mankind is closely interlinked by fate. The development of Africa's economy while essential for the future of the continent, will also have beneficial effects for the rest of the world.

The importance of Africa to the United States and to the world at large is founded on the following:

- Africa represents about 10 per cent of the world's population and 25 percent of its land mass. The socio-economic development of the continent, its environmental stability and the political developments therefore have bearing on the rest of the world.

- With a population of over 600 million and a GDP of about U.S. $ 443 Billion (1994), Africa has one of the largest concentration of consumers. It is therefore a large potential market, for the U.S. and for the rest of the world.

- Besides its manpower, the continent is endowed with vast resources which include: tropical forests, rivers and lakes, oil and mineral deposits, attractive geophysical features and rare species of animal life. Africa's varied climate also makes it possible to cultivate a wide range of crops for the benefit of mankind.

It is now widely appreciated by Africans themselves, that solutions to the continent's development are primarily their responsabilities. In this regard many African countries have undergone considerable transformation in the last five years or so aimed at improving the business climate and attracting investment. Consequently, Africa is now really a kaleidoscope of many countries and regions, at different stages of development. It is no longer accurate to generalize when referring to Africa. Recent changes and developments in the continent include:

- Democratization
The process of democratization has taken root in Africa. At least 31 countries now have popularly elected governments and parliamentary democracies. The trend continues.

- Economic Reforms
Most countries have embarked on structural adjustment programs to make their economies more market oriented. Most countries have liberalized their trade and investment regimes to facilitate the flow of goods and investment resources in and out of their borders.

- Regional Co-operation and Integration
In line with the global trend, a renewed interest in regional economic co-operation in Africa can be seen.

- Privatization
The role of the private sector in economic development of the continent is being encouraged through creation of an enabling environment for private investment. Government participation in business activities is on the decline as many previously government owned enterprises are restructured or privatized.

- Public Sector Reform
African governments recognize that the era of big government is gone. Measures have been undertaken in several African countries to downsize the bureaucracy.

The above changes have not been without a social and economic cost. The structural adjustment process has opened African enterprises to competition and forced numerous manufacturers to close down leading to lay-offs and increased unemployment. This compounded with a heavy international debt has left Africa in a fragile situation and in need of fresh capital. But it is Africa's hope and expectation that out of the sacrifice made and suffering endured will sprout a new life of prosperity. Several countries in Africa have set a base for take-off to newly industrialized country status. How fast and smooth this can be done will depend on the international reaction to changes in Africa. Injection of new investment capital is vital. The United States can make a major impact by encouraging direct investment in Africa.

THE CURRENT SITUATION OF US/AFRICA TRADE AND INVESTMENT RELATIONS

Since the winds of change that swept across Africa after the second world war, ushering in the independence of the majority of African countries , planting seeds of new nations, the United States has been a major participant in events that have shaped the continent.

Thanks to the variety of U.S. Foreign Assistance Programs, Sub-Saharan Africa, has benefited from a variety of socio-economic development schemes, humanitarian assistance programs and conflict resolution activities. Through the USAID, the Peace Corps movement and other targeted bilateral programs United States aid and technical assistance have helped development of the continent's agriculture, educational facilities, environment, industry, public health and manpower. The United States has equally been instrumental in the development of Africa through its contributions to multi-lateral organizations notably the United Nations, the World Bank, the African Development Bank and the IMF.

Despite all these efforts, U.S. assistance to Africa has fallen short of achieving the primary objective which is to reduce poverty and to improve the standard of living of the African people. U.S.-African trade has notably remained dismal while U.S. investment in Africa has stagnated if not declined.

For example in 1995,total US exports were valued at US $582.1 billion , $5.4 billion (about 1 per cent) of which went to Africa. Total US imports in 1995 were US $ 743.5 billion, $12.7 billion (1.7 per cent) of which originated from Africa.

Although the U.S. has a negative trade balance with Africa, crude oil alone accounts for nearly 66% of Sub-Saharan Africa's exports to the U.S. There are only a few other notable exports from Africa to the U.S. such as semi-precious stones (3.1%), ferro-alloys (2.4%) and cotton and textile apparel (2.3%). Sub-Saharan African exports to the U.S. are predominantly raw materials with little value added. Only four countries: Nigeria, Angola, South Africa and Gabon account for 84% of Africa's exports to the United States with Nigeria alone accounting for over 30 per cent in 1995. Similarly, South Africa accounted for over 50 per cent of Africa's imports, from the U.S. in 1995. Both the structure and level of U.S.-Africa trade are therefore unsatisfactory.

The formulation of a Comprehensive Trade and Development Policy for the Countries of Africa , a report presented by President Clinton to the Congress, on February 5, 1996 pursuant to section 134 of the Uruguay Round Agreements Act, is a major step forward to an overall Trade and Investment Policy on Africa but it has come at a time when the U.S. is actively downsizing its financial commitments to Africa .

Within the context of the efforts by the U.S. Congress to balance the budget, the already small U.S. aid package to Africa has been cut back, putting into question even the existence of present projects. African countries believe that new initiatives should complement rather than replace existing bilateral technical assistance and aid programs.

The Generalized System of Preferences (GSP) which allows African exports into the US market under preferential tariff rates, was held in abeyance for almost a year. The consequence of this indecision was that many small and medium African and American companies which utilized the GSP scheme had to bear the burden of added tariff cost.

Moreover, efforts by budding African exporters of textile and related products to the United States have been checked by quantitative restrictions, in way of quotas, thus frustrating the industrialization process of these countries, and reducing their capacity to purchase more U.S. goods, and attract more American investors. This is a glaring contradiction in U.S. development assistance objectives for Africa. An example at hand is the case of Kenya, which is currently limited by quotas to exportation of only 381,000 dozens of shirts and 1,378 thousand pairs of pillow cases to the U.S. each year. This quantity is a drop in the ocean and does not pose any danger of disruption to the U.S. domestic market.

The U.S. ineffectiveness in Africa contrasts sharply with the relative success of the European countries. While colonial history links African and European countries, this relationship has been strengthened and maintained through a solid program of co-operation and assistance under the umbrella of the Lome Convention. This convention not only provides preferential access to the European Union market by products from Africa, Caribbean and Pacific (ACP) countries but also provides regional technical assistance programs in industrial development, agriculture, and infrastructure development. The U.S. does not have a comparable comprehensive scheme for Africa.

The emergence of Japan and east Asian countries as major exporters of manufactured products and their increasing share of the African market clearly dispel any supposition that Europe has a monopoly over African markets. Success of these countries is based on close support by the their Governments to the private sector when competing for markets in Africa, especially in infrastructure development , as well as their long term strategies. The bottom line is - if Japan can succeed in Africa, so can the U.S.

CHALLENGES OF US/AFRICA TRADE: ELEMENTS OF SOLUTION

While there still remain major challenges to the development of mutually beneficial trade relations between the US and Africa; they are however not insurmountable.

Media Coverage

Most American and American businesses continue to be misinformed about Africa by the American media. Both the electronic and print media continue to present an unbalanced image of Africa by focusing mostly on major trials and tribulations of a handful of countries on a continent with more than fifty countries. These coverages are often inaccurate and inadequate, thereby rendering them overly negative and unrealistic.

Since the American business community in particular and public in general base their basic impressions of other parts of the world on media reports, a positive image of Africa in the US media is a crucial pre condition to the development of increased trade relations between Africa and the US. The economic potentials and opportunities offered by the African markets are seldom mentioned, but the woes of a handful of countries are generalized as reflecting the situation on the continent.

African-European Economic Relations

The US can follow Japan's example and begin to significantly increase its share of Africa's international trade. The US has to disabuse itself of the illusion that Africa is Europe's territory and live up to the words of the late Commerce Secretary, Hon. Ron Brown, "American will no longer concede tho African market place to Europeans". The Europeans have welcome this American challenge.

From Aid to Trade

While it is realistic to focus on increased trade between Africa and the US, and not only on US foreign assistance to Africa; it is also fair to say that US foreign aid to Africa was also a domestic assistance for jobs creation in the US, i.e. American consultants contractors and suppliers are used in providing US foreign assistance to Africa.

The late Commerce Secretary, Hon. Ron Brown and the Republican controlled Congress made it very clear to Africa that the US was focusing on trade and not foreign aid. As Africa braces itself for this change, it must nonetheless be a gradual process.

Joint-ventures between African and American businesses must be encouraged. OPIC EXIMBANK and USAID rules should be modified to allow for more commercial investments in Africa. Other US financial institutions, should commence modifications that would reflect this change and create more opportunities for Africans in Africa.

Africa debts crisis

A major challenge to trade development between Africa and the US is Africa's indebtness reported to be US $ 223 billion last year. Africa spends 20% of her export earnings on average to service this debt. This definitely reduces or eliminates savings for economic growth and development. Hence, it is in the interest of both the US and African governments to seriously find ways and means to eliminate this indebtness so as to provide the necessary savings for trade and investments.

Multinational corporations

Many small and medium size US businesses seem to have conceded the African markets to the large multinationals. They have the misconception that investments into African markets are very costly and riskier than investments into other parts of the world. However, the fact of the matter is that investing in Africa is no more costly and riskier than investing in other parts of the developing world, such as Latin America, Asia, central and Eastern Europe.

Small and medium size businesses should be encouraged to use commercial investment information from the US Commerce Department, African embassies, as well as African students and professionals before forming opinions on trade and investments in Africa.

Africa is more than a source of raw materials

As mentioned earlier, more than 75% of US imports from Africa have been in raw materials such as crude oil and minerals, Africa must be seen as more than the provider of raw materials for US manufacturers. Though it represents a diverse set of countries, with incomes ranging from low to upper middle; the last 14 years , it has led the world in rates of return on investments by American multinational corporations. The African market is significant for the US because it represents a large and developing market for US goods and services.

Africa should also be viewed as a region that is increasingly becoming liberalized both politically and commercially. The past five years have witnessed political reformation towards democratization that is unprecedented. The current trend of political and economic reforms must be embraced, encouraged and supported by the US. Institution-building and sustaining mechanisms in support of these changes must be visibly and adequately supported by the US as part of its comprehensive national security strategy to create a friendly environment for investment and development.

As political stability is a prerequisite for economic development and economic development contributes towards the alleviation of poverty; hence eliminating the breeding ground for such ills as terrorism, refugee flows, narco-trafficking, environmental degradation, internal and regional conflicts .

To further strengthen these efforts the US should penalize those American businesses that continue to engage in illegal commercial activities with warring factions and war lords.

AFRICA AND THE WTO

During the negotiations leading up to the final Uruguay Round and the implementation of the new GATT/WTO, the ability of the Sub-Saharan African countries as a group to protect their interests and influence decisions was very limited due to a number of factors, e.g. most Sub-Saharan African countries had neither the financial nor technical capacity to participate actively in the negotiating process, even today few have delegations at the GATT/WTO headquarters.

The new GATT aims principally at lowering world trade tariff barriers. At present, according to the OECD, the majority of Sub-Saharan African countries face tariffs on their exports of less than 1%. Therefore they will not be beneficiaries from these tariff reductions. The Most Favoured Nation (MFN) tariff cuts in the new GATT will lead to an erosion in the preference margins that beneficiaries received under such schemes as the Generalized System of Preferences (GSP) and the Lome Convention.

For Sub-Saharan African countries to achieve sustainable growth, the development of a strong manufacturing sector is essential. It will be through manufacturing that employment can be created for the younger generation of Africans coming on to the job market each year. However, it is specifically those manufactured products, such as clothing and leather work, which are of potential interest to African countries that retain the highest tariffs - 10.2% for garments and textiles and 2.1% for leather goods.

It is the general consensus of the numerous studies assessing the probable effects of the Uruguay Round on Africa in particular that any benefit to the Sub-Saharan African countries will be small and indirect from the trickle down effect of the general increase in world trade.

The Uruguay Round also encompasses a number of service agreements. Commercial services account for 25% of world trade and grew at an annual rate of 7.7% between 1980 and 1993, while trade in goods grew at 4.9%. African countries are principally importers of services. The Sub-Saharan African countries will need help in ensuring that internal markets are not swamped by foreign companies as they open up their service sectors. They will also need technical assistance in setting up the legal and investment frameworks for these areas of development.

The WTO will become a major international organization influencing the world economic order. Since Sub-Saharan African countries have little experience in trade and commercial matters for the reasons stated above, they will find it difficult to play a full role in the WTO to successfully protect African interests. Furthermore the number of Africans who can participate in the structural organization of the WTO itself is also limited, doubly limiting the ability of the African countries to effectively work to ensure the full integration of Africa into the global economy.

In the light of the above conclusions concerning the effect of the Uruguay Round on Sub-Saharan African countries, some rethinking of the new GATT/WTO framework in respect of Africa is necessary. This must take into consideration the major historic disadvantages under which the African countries are seeking to reform and develop their economies, and the disadvantages that the present UR framework impose on the African countries.
The support of the United States, as well as other international partners, would be of the upmost importance.

NEW INITIATIVES FOR A UNITED STATES TRADE AND INVESTMENT POLICY TOWARD AFRICA

As noted by the U.S. Senate Committee on Appropriation in its 2nd session report of June 27, 1996, "... After years of substantial U.S. bilateral and multilateral aid and investment, economic and trade trends (in Africa) show little sign of improvement. It is clear that the administration has not yet developed a coherent strategy to match long term, declining resource trends with ever expanding requirements. No new targets of development opportunity have been defined nor have innovative approaches been tested...".

Considering the "limited" success of U.S. policy on aid and development in Africa, especially towards the eradication of poverty and the creation of an enabling environment for self-sustaining development, the time has come for a radical shift in policy to support a private sector and market incentives approach to stimulating economic growth and reducing poverty in Africa.

As has been noted by the African Ambassadors Economic Committee, the achievement of the above goal is primarily a question of approach.

The suggested approach should contain the following elements:

1. Countries that have suffered major internal conflicts and natural disasters should continue to receive traditional aid programs that provide humanitarian and reconstruction assistance.

For those countries whose levels of economic growth justify it, foreign assistance funding should be directed at creating seed capital and leverage in the financial markets

2.. Aid should be aimed at capacity and capability enhancement of African entrepreneurs, professionals and firms. Training programs should make African consultants and firms eligible for bids put out by the multilateral financial institutions. A portion of such contracts should be set aside for these African firms to give them the chance to grow and participate fully in the global economy.

3. The United States Government should develop a "Marshall Plan" for Africa, but this time, providing guarantees and incentives to the United States private sector to invest in Africa . American investors should be encouraged to process Africa's vast raw materials in Africa . Current policies such as that of the US EXIMBANK which requires African governments with fragile financial institutions to counter-guarantee loans for projects must be modified if the assistance package under these policies is to be meaningful to the African entrepreneurs.

4. The active support of the United States Government for the regional economic integration efforts in Africa is critical if African markets are to be developed to sufficiently attract U.S. private capital and entrepreneurship.

5. The science and technological know-how of the United States should be used to help Africa modernize its indigenous technologies for greater raw material processing. Agencies such as the Departments of Energy, Transportation, Agriculture, in conjunction with other US private sector research organisations and universities could liaise with African research organizations such as Ghana Centre of Scientific and Industrial Research (CSIR) to create new products from plants and other raw materials.

6. US Trade and development Policy for Africa should also incorporate an incentive scheme that will encourage the African professionals who have been trained in the United States or received higher training in the US to offer their services to African countries. Such a scheme that encourages these professionals to start up businesses in Africa with US technical support will appeal more directly to these professionals and intellectuals.

7. The new policy should allow easier access for African products to the US market. The acceptability of African products in US markets, and the desire of the general US citizenry to support assistance to Africa is critically dependent on the image of Africa projected in the minds and perceptions of the American public. US policy should use the expansive reach of the US agencies to present Africa in a positive light to the US public. For example, few Americans realize that each US dollar given as aid to Africa generates $20.00 for the American economy and that US firms on the average receive 30% return on their investments in Africa as compared to 12% in other developing countries and 5% in developed countries.

8. US technical assistance should encourage and support African governments to improve their abilities for superior policy analysis skills.

9. The US trade policy must seriously address Africa's overbearing debt-burden. Debt forgiveness for all of the debt should be a possibility, especially with strong US leadership.

CONCLUSION

The African countries welcome the publication of the US President's Comprehensive Trade and Development Policy for the Countries of Africa. It is a giant step in a very long, arduous struggle to gain improved trade preferences with the USA. The African countries certainly support all the initiatives included in President Clinton's Comprehensive Trade and Development Policy for the Countries of Africa, and urge their implementation as soon as possible.

Moreover, the African countries also support the initiatives of the House Bipartisan Africa Trade & Investment Caucus particularly:

US-Africa Free Trade Area, though the earlier the better
Creation of the US-Africa Economic Cooperation Forum
Freeing African textile and apparel exports from quota up to a level of $ 3.4 billion per year.

The African countries note with much satisfaction the unprecedented initiative of the House Ways and Means Subcommittee on Trade to organize this hearing which focuses on the promotion of better trade and investment relations between Sub-saharan Africa and the US.

The present statement is just a basic overview, to proceed further, a Summit between the President of the United States and the leaders of African Countries should be convened in order to hold a high level discussion on the formation of a US-Africa Trade and Investment Partnership.

The new partnership would include greater access to African and US markets as well as the establishment of an annual high level forum that will provide the opportunity to develop, evaluate and monitor the implementation of the elements of the partneship.

We can assure that the African Ambassadors to the US are fully committed to work closely with all US interested parties, to achieve these goals.

JOINT STATEMENT OF
MAURITIUS SUGAR SYNDICATE AND
MAURITIUS-U.S. BUSINESS ASSOCIATION, INC.

Before the

UNITED STATES HOUSE OF REPRESENTATIVES
BEFORE THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

Concerning U.S. Trade Policy with Africa

This statement is submitted on behalf of the Mauritius Sugar Syndicate ("MSS") and the Mauritius-U.S. Business Association, Inc. ("MUSBA") in connection with the Subcommittee's August 1, 1996 hearing on U.S.-Africa trade policy. The MSS is a private sector organization representing all sugar planters and millers in Mauritius. Working in close cooperation with the Government of Mauritius, the MSS is responsible for marketing all sugar produced in Mauritius, including sales to the United States under the U.S. tariff rate quota. I am legal counsel to the MSS in the United States.

MUSBA is a non-profit corporation dedicated to enhancing the opportunities for mutually beneficial trade between Mauritius and the United States. MUSBA's membership is drawn from the private sectors of both Mauritius and the United States and consists primarily of companies and individuals who are engaged in importing and exporting goods and services between both countries. I am the current president of MUSBA.

Introduction

In December 1994, Congress passed the Uruguay Round Implementing Act, Pub. L. 103-465, 108 Stat. 4809 (Dec. 8, 1994). Section 134 of that Act called upon the President to "develop and implement a comprehensive trade and development policy for Africa." In February, the President issued his first report to Congress on this subject. While the President's recommendations represent a positive step, particularly by recognizing the need and opportunities for improving trade between the United States and Africa, we do not believe those recommendations go far enough.

During its hearing on August 1, the Subcommittee received a variety of proposals for more aggressive and ambitious action to increase trade with Africa and to encourage investment to facilitate Africa's continuing economic development. In particular, Rep. McDermott presented testimony calling for an immediate increase in access for African-origin textile and apparel products and for the creation of (1) a U.S.-Africa Free Trade Area; (2) a U.S.-Africa Economic Cooperation Forum; and (3) a Trade and Investment Partnership. MUSBA and the MSS support these proposals.

To illustrate the need for these steps, my statement addresses the threats to existing trade in the two export products of greatest importance to Mauritius — *i.e.*, sugar and apparel. This statement also analyzes the potentially negative impact on Mauritius' exports of the Uruguay Round and the growing emphasis on Western Hemisphere regionalism in U.S. trade policy. While the following comments focus on the importance of maintaining and expanding U.S.-Mauritius trade, these comments are in many respects relevant to trade with the African region generally.

I. THE IMPORTANCE FOR MAURITIUS OF TRADE WITH THE UNITED STATES.

A. Sugar Exports: The Cornerstone of the Mauritian Economy.

Until relatively recently, the Mauritian economy was almost completely dependent upon one product—sugar. With few natural resources, Mauritius has for more than 200 years relied upon the production and export of sugar for its livelihood. Until the mid-1980's, the sugar industry was by far the largest private sector employer, and sugar exports accounted for nearly 90 percent of Mauritius' total export revenues. Mauritius' dependence on sugar is due to its particular climatic conditions. Sugar cane is one of the very few crops that can withstand the tropical cyclones that frequently hit the island. As a result, sugar cane is grown on over 90 percent of the arable land on the island. Despite its small size, Mauritius is the third largest producer of sugar in the African region and among the top ten sugar exporters in the world.

Over the past 15 years, Mauritius has undergone a successful economic diversification program, primarily due to the encouragement of apparel manufacturing in the Export Processing Zone. Despite the success in developing the apparel industry, the sugar industry remains the cornerstone of the Mauritian economy. Today, the sugar industry is the second largest employer. Sugar exports now account for roughly 30 percent of gross export revenues and about 50 percent of net export revenues, as the materials and equipment for the apparel industry must be imported.

Approximately 40,000 people out of a total working population of roughly 500,000 are directly employed in the sugar industry. In addition, other industries that support the sugar industry provide further employment. The Mauritian sugar sector is not dominated by a few large corporate farms. Nearly half of the sugar is produced on approximately 35,000 small-to medium-sized farms—most of which are family owned. In addition, no government subsidies are provided to the Mauritian sugar industry.

For decades, the United States has been one of Mauritius' important trading partners and an essential market for its sugar exports. Before the imposition of the U.S. sugar quota in 1982, Mauritius exported as much as 100,000 tons of sugar per year to the United States. In the intervening years since 1982, the U.S. sugar quota has gradually declined, and Mauritius' access to the U.S. sugar market has been reduced commensurately.[1] As a result of the Uruguay Round, the United States has now "bound" the minimum level of the tariff rate quota at 1.1 million tons. Mauritius' first-tier allocation of this minimum quota amounts to approximately 15,000 tons.

Despite the reductions in Mauritius' access to the U.S. market since 1982, the United States remains Mauritius' second largest export market for sugar.[2] Should Mauritius' or the other African sugar exporters' access to the U.S. market be further reduced, the only alternative market for their sugar exports would be the so-called "world market," where spot prices are extremely volatile and frequently do not even cover the cost of production.

The benefits received from stable access to the U.S. sugar market at reasonable prices are widely distributed throughout the economy of Mauritius. As noted above, 40,000 workers are directly employed in the production of sugar. These employees are unionized and engage in collective bargaining regarding wages and benefits. The right to collective bargaining is guaranteed by legislation in Mauritius, and working conditions are regulated by government agencies. Sugar industry wages have generally increased faster than the rate of inflation and are comparable with wages in the industrial sector of Mauritius. Moreover, 35,000 small farmers earn their livelihoods or supplement their incomes by growing sugar. As members of the MSS, these small growers share directly in the proceeds received from sales to the U.S. market.

---

1 The percentage allocation of the U.S. sugar quota assigned to Mauritius—1.2 percent—does not accurately reflect Mauritius' traditional share of the U.S. market due to the unprecedented coincidence of several *force majeure* events during the 1975-1981 base period used to calculate the quota allocations. Mauritius' share of the U.S. quota would have been greater if a more representative base period had been used. Despite repeated requests by the MSS, the U.S. Administration has not adjusted Mauritius' quota allocation to account for this anomaly in its base period exports.

2 The same is true for most of the other African sugar-exporting nations. Ten developing African countries hold allocations under the U.S. sugar quota: Congo, Côte d'Ivoire, Gabon, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland and Zimbabwe. The United States has traditionally been the largest or second largest market for sugar exports for most of these countries. The most recent data published by the International Sugar Organization reports that over the past five years 100 percent of the sugar exported by Mozambique and Gabon went to the United States, and approximately 50 percent of the sugar exported by South Africa since economic sanctions were lifted has been sold to the United States. For most of the remaining African quota holders, sugar exports to the United States constitute approximately 25 percent of their total sugar exports.

In addition to these direct benefits, revenues earned on sugar exports to the United States are reinvested in Mauritius and have served as an important source of funds for economic development and diversification, including the development of the apparel industry. Mauritius has also enjoyed a sugar-based industrial development in which many local businesses have been established over the years to meet the needs of the sugar industry. For example, businesses have been created to manufacture fertilizer, lime, factory equipment, and other products required to produce sugar. Distilleries have been established to produce rum and perfume from the by-products of the sugar industry. Bagasse, the dried residue from crushed cane, is used in generating electricity for the national grid, replacing non-renewable energy imports such as oil. These new economic developments have provided significant additional employment opportunities as a result of the "multiplier effect" of each dollar earned from the sale of sugar.

For all these reasons, it is of vital importance that Mauritius maintain at least its current level of access to the U.S. sugar market at fair and remunerative prices. Any erosion in the U.S. price or in Mauritius' access to the U.S. sugar market would affect not only the sugar industry, but also Mauritius' ability to plan and to execute future economic development in other sectors.

B. The Mauritian Apparel Industry: Continued Success Depends Upon Market Access.

At its independence in 1968, Mauritius had essentially no industrial base and very little foreign investment. By 1982, the economic outlook was further complicated by a catastrophic unemployment rate of 20 percent, which only threatened to worsen if the population continued to grow at the then-current rate. Based on the advice of the World Bank, in 1982 the Government of Mauritius embarked upon a bold program of fiscal austerity and economic development and diversification. Building upon the foundation of the Export Processing Zone and adding incentives designed to attract foreign investment, Mauritius took the first steps toward a diversified economy.

The development and diversification program has been a remarkable success. In less than 15 years, the apparel manufacturing industry has become the largest employer in Mauritius, and apparel exports now constitute nearly 60 percent of Mauritius' gross export revenues and 40 percent of net export revenues. In addition, the tourism industry has also grown to the point that it is now the third largest source of employment and foreign revenue. The process of diversification is still ongoing, and Mauritius is currently expanding into other types of light manufacturing, information services and financial services.

The continuation of these export-driven successes, however, is dependent upon Mauritius' ability to maintain access to its major markets for its two main export products, *i.e.*, sugar and apparel. Because the United States is an essential market—indeed, Mauritius' second largest market, behind only the European Union—for both of these products, Mauritius' economic stability and continued development will depend to a large degree on its ability to maintain and hopefully expand its access to the U.S. market for its most important export products. Unfortunately, both the Uruguay Round Agreement and the increasing emphasis on the Western Hemisphere in U.S. trade policy threaten Mauritius' current success and its prospects for future development.

II. THE URUGUAY ROUND AGREEMENT CREATES SPECIAL RISKS FOR AFRICAN EXPORTERS.

Although the successful conclusion of the Uruguay Round was a tremendous accomplishment, a consensus has emerged that the Uruguay Round Agreement provides relatively few benefits for developing countries generally and for the countries of Africa in particular. Indeed, it appears that the Uruguay Round Agreement actually raises new risks for African exporters. This is especially true in the case of Mauritius' exports of sugar and apparel.

A. The Effect of the Uruguay Round on Sugar Exports.

The United States has determined that the Uruguay Round Agriculture Agreement requires no changes to the basic structure of the U.S. sugar program.[3] Indeed, the only significant change to the U.S. sugar program that has resulted from the Uruguay Round is the binding of the minimum access level under the U.S. tariff rate quota.[4] Even that development, however, is not an unmitigated blessing, as the United States has retained the right to modify or even rescind the basic country allocation system that has determined access to the U.S. sugar market since 1982.

Indeed, in the context of the Federal Agriculture Improvement and Reform Act of 1996, Pub. L. No. 104-127, 110 Stat. 888 (Apr. 4, 1996) (the "Farm Bill"), the United States has already this year considered the possibility of rescinding the country allocations and "globalizing" the sugar quota so that future access would be on a first-come, first-served basis. Fortunately, the final version of the Farm Bill rejected the concept of globalization and continued the basic structure of the current U.S. sugar import program for another seven years. If the U.S. quota were globalized in the future, however, there is a serious risk that the entire quota would be captured by a handful of the world's largest sugar producers to the exclusion of Mauritius and other African exporters that have traditionally relied on access to the U.S. sugar market. If Mauritius and the other African quota holders are to retain meaningful access to the U.S. sugar market, it is essential that the current country allocations be maintained.

In addition, at the same time that the United States bound the minimum quota, it modified the U.S. Harmonized Tariff Schedule to include sugar imports from Mexico pursuant to the North American Free Trade Agreement ("NAFTA") within the first tier of the tariff rate quota. This development further jeopardizes access to the U.S. sugar market by Mauritius and the other African quota holders by creating the risk that increased sugar imports from Mexico in the future could displace imports from other traditional suppliers.

B. The Effect of the Uruguay Round on Apparel Exports.

The Uruguay Round Agreement also poses great risks for Mauritius' apparel exports to the United States. The gradual phasing out of country quotas under the Multifiber Arrangement will certainly result in a more market-oriented approach to apparel imports. On the other hand, it is virtually certain that intense competition for access to the U.S. market will result, and it remains to be seen whether relatively small producers like Mauritius and the other African countries can retain market share once the quotas are lifted on such low-cost producers as China. This threat is especially severe for those African countries that are only now beginning to develop apparel industries. Under the Uruguay Round regime, they may never be able to obtain meaningful access to the U.S. market.

---

3 The Uruguay Round Agriculture Agreement requirements fall into three main categories: (1) market access: tariffication of non-tariff barriers and 36 percent average (15 percent minimum) reduction in tariffs over six years; (2) domestic supports: 20 percent reduction in aggregate of trade distorting domestic subsidies; and (3) export subsidies: 21 percent reduction in volume and 36 percent reduction in amount of export subsidies.

4 The United States will also reduce its second-tier duty on sugar by the minimum 15 percent. That change is unlikely to affect access to the U.S. sugar market, however, because even the reduced duty will still pose a prohibitive barrier, absent dramatic changes in the U.S. and/or world sugar markets.

III. THE GROWING EMPHASIS ON WESTERN HEMISPHERE REGIONALISM IN U.S. TRADE POLICY JEOPARDIZES CONTINUED ACCESS FOR MAURITIUS' EXPORTS TO THE UNITED STATES.

Even before the Uruguay Round was completed, U.S. trade policy had begun to focus primarily on expanding trade within the Americas and the Caribbean, to the potential detriment of the United States' other developing-world trading partners. This policy shift in favor of Western Hemisphere regionalism was most clearly exemplified by the conclusion of NAFTA, the efforts to create a Free Trade Area of the Americas ("FTAA"), and proposals to expand the trade preferences accorded to beneficiary countries under the Caribbean Basin Initiative ("CBI") (*see* Caribbean Basin Trade Security Act, H.R. 553, S. 529).

While expanding free trade within the Western Hemisphere is certainly laudable, Congress should not lose sight of those countries whose trade opportunities would be diminished by the creation of such a trade bloc. While trade will no doubt continue to flourish between the United States and the other countries of NAFTA, the CBI, or a prospective FTAA, we must recognize that some of the growth in Western Hemisphere trade will come at the expense of existing or potential trade relationships with the countries of Africa, which are excluded from the terms of the Western Hemisphere free trade regimes. There is a real risk that further expansion of Western Hemisphere trade preferences may curtail commerce between the United States and Africa unless steps are taken to provide similar trade opportunities for those countries. This is especially true in the case of two products that are at the heart of the U.S.-Mauritius trading relationship — sugar and apparel.

In the case of sugar, NAFTA provides Mexico with an opportunity and a strong incentive to expand its sugar exports to the United States from their current level of 8,000 tons per year to 250,000 tons per year during the transition period, provided Mexico becomes a net exporter of sugar. Thereafter, Mexico will have unlimited, duty-free access to the U.S. sugar market.

Mexico's preferential access to the U.S. sugar market under NAFTA is already a threat to future access by Mauritius and the other African nations. If comparable terms are extended to the other countries of the Americas in the FTAA negotiations or to the CBI countries, there is a very real risk that Mauritius and the other African sugar exporters will lose all access to the U.S. sugar market.

Similarly, NAFTA grants Mexico preferential access—in terms of both quotas and duties—for its apparel exports to the United States. Such preferential access for Mexican apparel products is especially problematic for Mauritius because Mauritius and Mexico export many of the same apparel products to the United States, and Mexico already enjoys obvious advantages due to its close proximity to the U.S. market.

Under the Uruguay Round Agreement, U.S. quotas on Mauritian apparel exports will be phased out over ten years. Under NAFTA, however, U.S. quotas on Mexican apparel products that meet NAFTA's "yarn-forward" rule of origin were eliminated January 1, 1994, and U.S. quotas on non-originating Mexican apparel products will be phased out more quickly than under the Uruguay Round, with most such quotas to be eliminated by 2001.

Equally important, Mexican apparel products have a permanent duty advantage as a result of NAFTA. Under the Uruguay Round Agreement, U.S. tariffs on Mauritian apparel exports will be reduced—*but not eliminated*—over ten years. In contrast, under NAFTA, U.S. tariffs on qualifying Mexican apparel products were reduced effective January 1, 1994, to lower than MFN levels and will be eliminated completely by 1999-2003. Non-originating Mexican apparel products are subject to preferential duty rates under tariff-rate quotas. As illustrated by the following table, Mauritius' apparel products are at a substantial duty disadvantage compared to the same products imported from Mexico.

		Imported From Mauritius Under GATT		Imported from Mexico Under NAFTA	
HTS No./ Category	Product	1995 Duty	Reduced Duty by 2004	Current Duty	Reduced Duty
6205.20.20 340	Men's/boys' cotton shirts	21.0%	19.7%	16.5%	0% (1999)
6203.42.40 347	Men's/boys' cotton trousers	17.7%	16.6%	14.5%	0% (1999)
6204.62.40 348	Women's/girls' cotton trousers	17.7%	16.6%	14.5%	0% (1999)
6110.20.20 345	Knit cotton sweaters	20.7%	16.5%	18.6%	0% (2003)
6206.30.30 341	Women's/girls' cotton blouses	16.4%	15.4%	0%	0%
6108.21.00 352	Women's/girls' cotton panties	8.1%	7.6%	0 %	0%

From the foregoing, it is obvious that as a result of NAFTA apparel products from Mauritius and other African exporters are already at a serious competitive disadvantage *vis-à-vis* the same products coming from Mexico. Of course, the African nations are not the only apparel exporters prejudiced by the preferences granted to Mexico in NAFTA. Indeed, recognizing that NAFTA creates the risk of transferring trade opportunities from other developing countries to Mexico, Congress has considered the Caribbean Basin Trade Security Act. The core provisions of that bill would, if enacted, extend to the CBI beneficiary countries many of the same apparel trade preferences now enjoyed by Mexico under NAFTA. Such a step, however, would only further compound the disadvantages already facing Mauritius and the other African apparel exporters.

IV. CONCLUSIONS AND RECOMMENDATIONS.

When the provisions of the Uruguay Round Agreement are considered in conjunction with NAFTA and other Western Hemisphere trade preferences being considered by the United States, it becomes apparent that U.S. trade policy at best ignores Africa, and at worst adversely affects the economic development of Africa by transferring trade opportunities to developing countries in other regions.

One of the appropriate means of reversing this trend and actively encouraging trade with Africa would be, as Rep. McDermott has suggested, for Congress to authorize negotiations with appropriate African countries aimed at creating a U.S.-Africa Free Trade Agreement. Such an approach would ensure meaningful future access to the United States for those products that are most important to Africa, including sugar and apparel. Such access should be provided on terms at least as beneficial as those provided to developing countries in other regions, including Mexico and the CBI beneficiary countries.

We suggest, however, that a U.S.-Africa Free Trade Agreement can and should become a reality on a much shorter schedule than has been suggested. While some countries in Africa may not yet be ready to participate in an FTA with the United States, a number of African countries are currently at a sufficient level of economic development and have demonstrated their commitment to free and open trade to warrant initiating free trade negotiations in the short term future. The member nations of the Southern African Development Community (SADC), including Mauritius, would be a logical starting point for such free trade negotiations. Moreover, an appropriate schedule for such negotiations would be to aim for the conclusion of an FTA with appropriate African countries by the year 2005, the same target as is included in the FTAA proposal.

Recognizing that such negotiations, even if started immediately, would be unlikely to be concluded before Mauritius and other African apparel exporters feel the brunt of the apparel provisions of NAFTA and the Uruguay Round, which threaten to reduce their access to the U.S. market, Rep. McDermott's proposal for an immediate increase in duty-free and quota-free access for African-origin products is an excellent and practical way of bridging the gap until an FTA can be completed. By thus reducing the threats currently facing African apparel exports, developing African apparel industries can continue to grow until more permanent arrangements for trade in these products can be established. Of all the recommendations currently before the Subcommittee, only this proposal would provide an immediate solution to a current problem. Accordingly, we strongly encourage the Subcommittee to implement this proposal on an expedited basis while it continues to consider other recommendations for encouraging trade with Africa in the future.

Rep. McDermott's remaining proposals for creation of a U.S.-Africa Economic Cooperation Forum and Trade and Investment Partnership represent sound and practical means of ensuring that U.S. trade and development policy in the future does not continue to ignore Africa.

Finally, we applaud Congress' recent renewal of the GSP program, which is an important means of encouraging trade with Africa. We regret, however, that Congress was unable to renew the GSP program beyond May 1997, and we encourage the Subcommittee to make long-term renewal of the GSP program a high priority.

In closing, let me thank the Subcommittee for the opportunity to present the views of the MSS and MUSBA concerning U.S.-Africa trade policy.

Testimony of John F. Hicks
Assistant Administrator for Africa
U.S. Agency for International Development
Before the Trade Subcommittee
of the Committee on Ways and Means

Washington, D.C.

Thank you for the opportunity to submit testimony on behalf of the U.S. Agency for International Development (USAID). Trade, investment and development in Africa are clearly issues that deserve heightened attention.

Mr. Chairman, I believe there is much that we can agree upon. It is in the national interests of the United States to promote stable, democratic and dynamic trading partners in Africa. Economic growth on that continent ultimately will serve to reduce the need for foreign assistance and provide an expanding market for America's goods and services. America needs coordinated policies and diplomatic strategies to help secure the advance of free markets in Africa.

Unfortunately, U.S. efforts to promote free markets in Africa are being starved by a lack of resources. This year the United States will commit less to promoting development than Japan, Germany or France. This comes despite the fact that our economy is one and one-half the size of Japan's, four times the size of Germany's and almost six times that of France. This disturbing trend comes at a time when exports are increasingly important to our domestic economy and when exports to the developing world represent our fastest growing market sector. It is difficult to view such a policy as anything but penny-wise and pound foolish.

The Business Alliance for International Economic Development, a coalition of prominent American businesses, recently noted, "If we decide that the American economy is doing just fine without the stimulus provided by economic assistance abroad, we will be stunting the economic prospects for our children and their children after them."

It is my sincere hope that the members of this Committee will make their voices heard in the debate about resources and the need for U.S. leadership in promoting economic growth at home and abroad.

The economic record in Africa is a mixed one. Much of the continent has suffered under years of civil strife, corruption and bad economic policy, including a failure to invest wisely in building human capital. However, it would be unfair and inaccurate to paint the broad variety of African nations with a simplistic brush of widespread economic failure. In fact, the situation in much of Africa is increasingly hopeful.

Consider that, in 1995, the median rate of economic growth for sub-Saharan Africa as a whole reached 4.5 percent. Excluding South Africa, sub-Saharan exports grew by 10.4 percent in 1995, while imports grew by 10.5 percent. U.S. merchandise exports to sub-Saharan Africa jumped by a billion dollars, from $4.4 billion to $5.4 billion in 1995 -- an impressive increase of 22.7 percent. It is too easy to allow the horrors of Liberia and Rwanda to define our images of Africa. In fact, Africa is a much more peaceful continent today than it was ten years ago. An increasing number of nations in Africa have been willing to embrace the long, patient work of economic and political change.

After a decade of slow and halting economic and political liberalization, African economies seem to be finally turning the corner.

I know that this Committee has been considering draft legislation, the "African Growth and Opportunity" act. We at USAID welcome the increased attention being given to the importance of development and trade in Africa. Obviously, we have yet to see a more final version of this Committee's legislation. My comments are a based on that preliminary material that has been provided to us, and I will do my best to provide USAID's view based on this still moving target.

The central feature of this proposal would appear to be an effort to create two large, 20-year, Trade and Development Authority (TDA)-managed, infrastructure and equity funds to help attract American investors to Africa. These funds would be financed, in their first three years, by $100 million from USAID's development assistance accounts. While USAID strongly supports a number of provisions within this proposal, particularly the development of the Africa Trade and Economic Cooperation Forum, its support for the Development Fund for Africa, and efforts to reduce trade barriers between the United States and Africa, we have real concerns about the basic strategy underlying this proposal. In addition, the transfer of tens of millions from our development assistance accounts would severely interrupt vital programs currently being carried out at a time when the agency is already under unprecedented financial duress.

The greatest challenge to achieving broad and dynamic economic growth in Africa is *not* a lack of American private capital. The greatest challenge to Africa's economies is creating an economic environment where American and African private capital is willing to invest -- and to invest without fear that they will receive unfair treatment.

Around the world, time and time again, we have been given ample proof that private investment will flow into nations that embrace sound economic policies, the rule of law and free trade. *In short, investments and private capital flow abundantly into sound economic environments.* Unfortunately, the proposal -- as currently structured -- tries to reverse that formula, offering public financing for investment, but cutting programs that address the underlying obstacles to establishing a sound economic environment in Africa. Creating that sound economic environment is exactly what USAID's programs are about.

The key constraints to accelerated private investment and growth in Africa are policies and regulations that make investment risky and unprofitable -- not a lack of funding for private investors.

Harvard economist Jeffry Sachs argued in a recent article in *The Economist,* that there are three important characteristics that determine a country's economic progress: its openness to the world economy; its dependence on markets; and its level of saving. Sachs, in fact says "Remedies that have worked in East Asia can also work, with suitable modification, in Africa." He demonstrates that structural issues, such as poverty, natural resource levels, and being land-locked are not responsible for Africa's slow growth. Rather it is policies that have over-regulated markets and created government enterprises that have made international trade difficult and expensive and crowded out private investment to pay for subsidies and public sector white elephants.

In its 1995 report, *Building the Private Sector in Africa,* the International Finance Corporation of the World Bank Group described the constraints to private sector development in Africa. They listed three tiers of constraints: (1) development constraints such as a relatively unskilled labor force and a weak infrastructure base;

(2) macroeconomic constraints, particularly lax fiscal policy; and (3) legal, regulatory and judicial constraints. The legal, regulatory and judicial constraints were further divided into seven groups:

1) Legal and regulatory constraints such as price controls, restrictive labor codes, slow and uneven investment licensing, etc.;

2) Problems with the financial system, including crowding out of private investment, direct credit controls, and lack of financial instruments;

3) The structure and administration of taxes, including high marginal rates, widespread exemptions and evasion, poor and uneven administration;

4) The dominance of the public enterprise sector, particularly in industries, such as banking and transportation, which provide key services to other sectors;

5) Restrictions on foreign direct investment, including restrictions on remission of profits, restrictions on land ownership, and restrictions on employment of expatriates;

6) Widespread corruption; and

7) The public sector's poor understanding of, and dialogue with, the private sector.

In looking at these barriers to economic growth, we see a list of factors that USAID's programs are very well positioned to address. Clearly, the greatest constraints lie in the need for economic policy reform and the need to invest in the human capital that will attract investors.

USAID's role is to act as a catalyst in assisting Africans to reform and strengthen the institutions of economic governance. Our programs provide practical knowledge on the prudential regulation of banks, the establishment of export finance mechanisms, the collection of taxes, and all the many institutions necessary to a modern economy.

The bottom line is that across Africa USAID is doing very important, very innovative work that is creating the environment in which private business can thrive and grow. Africans, presented the opportunity, will save and work to create their own wealth and bring themselves from poverty to prosperity. I want to emphasize the breadth of USAID's work in financial markets which has resulted in the creation of tens of thousands of new jobs.

In Cote d'Ivoire, Uganda and Swaziland, USAID is providing technical assistance to develop securities markets. In Tanzania, Senegal and Swaziland, we are supporting banking reform and privatization. USAID is helping establish venture capital firms in Ghana, Tanzania, and Kenya. We are strengthening credit unions in Mali, Niger, Togo, Cameroon, and Malawi. In Zimbabwe and South Africa we are helping reform mortgage finance. We have established the Southern Africa Enterprise Development Fund, and smaller national funds in South Africa and Zimbabwe. We are also strengthening small businesses through microenterprise lending programs in Guinea, Mali, Zimbabwe, Senegal, Niger, Kenya, South Africa, and Uganda.

USAID's work in non-traditional exports, centering on deregulation and technical support, is leading to growth of these exports in excess of 25 percent per year in countries such as Ghana and Uganda. USAID's work in agricultural market liberalization is creating tens of thousands of new firms in agricultural processing and transport, reducing food prices for the poor, and resulting in improved food security in countries such as Zimbabwe, Kenya, Guinea Bissau, Mali, and Senegal.

USAID's support of business associations throughout Africa is establishing these groups as legitimate spokesmen of business interests and as an important force for deregulation. Our support of agricultural technology development institutions is resulting in higher productivity in key food crops such as corn, potatoes, rice, cassava and beans and is critical to improving food security in Africa. USAID's work in transportation and communications infrastructure is linking farms to markets, and African businesses to the world.

Private investor interest in Africa is growing. Foreign direct investment in sub-Saharan Africa increased from only $144 million in 1980, to $3.19 billion in 1994. Recent political and economic reforms, many assisted by USAID, have made these countries more attractive to foreign private investors. During the 1990s, U.S. direct foreign investment in Africa has earned higher rates of profits than any other region in the world. Portfolio investment is expanding rapidly, although starting from modest levels. *The Wall Street Journal* reports that African investment funds had the highest rate of return in 1995 of any region of the world.

Similarly, African capital which had sought the security of European banks is now coming back to Africa. From 1985-1989 private transfers to Africa have averaged $230 million per year; since 1990, these transfers have been growing by 45.5% per year, reaching $3.1 billion in 1995. U.S. investment is on the rise in sectors such as petroleum, fertilizers, mining and minerals, food processing, and consumer goods.

U.S. firms in South Africa, for example, have returned to the country in unprecedented numbers since the period of disinvestment ended in 1991. An average of 5 new and/or returning U.S. firms opened offices or established subsidiaries in the country each month during 1995. McDonald's, for example, announced a $5.5 million franchise network. Ford Motor Corporation has a 45 percent stake in the South African Motor Company, SAMCOR. And Levi Strauss opened a $9 million jeans manufacturing facility outside of Cape Town.

Elsewhere in the region, Coca-Cola has set up soft drink bottling facilities in Ghana. Citibank operates banking subsidiaries in Tanzania. Chevron is active in Angola, Congo, Namibia, Nigeria, and Zaire. Enron Corporation signed a gas project in Mozambique to create a pipeline linking that country with South Africa. Kaiser Aluminum has an important processing plant in Ghana. The Owens-Corning plant in Botswana recently doubled its productive capacity, won a $75 million contract to provide materials for the north-south carrier project, and is supplying technology, generating employment, and will create exports for Botswana.

In the coming years, American foreign aid will be less the provider of financial resources and more the catalyst for partnerships between the private sectors of Africa and the United States.

We must remember that trade does not just happen. Free markets do not just come into existence. The enabling environment must be right before capital will begin to flow. That is why USAID is helping nations liberalize their markets. That is why we have launched initiatives to remove institutional and legal barriers to trade. That is why we are fostering trading cultures that are receptive to foreign investment. And that is why we are supporting programs that create broad-based economic growth in Africa.

That is also why we work in partnership to improve human resources. This means increasing economic productivity, and investing in people through programs in education, health care, family planning and child survival. It also means helping nations manage their natural resource base soundly so that economic growth can endure. All these endeavors help create markets that have the desire and the capital to engage in trade and investment.

This is a critical time for Africa. As the Economic Communique of the Lyon Summit declared, "Economic growth and progress in today's world is bound up with the process of globalization." It is the time for Africa to link up to a booming world economy.

The money to invest in Africa is already available, billions and billions of dollars of potential African savings, African flight capital and foreign investment. The only reason they are not flowing into African investments is the fact that African economies remain more risky and less profitable than alternative uses.

But Africa is turning around. Africans now realize they are in charge of their own destiny. Throughout Africa people are organizing themselves into groups and associations to enable themselves to control and influence economic and social policy and the allocation of resources. Whether it is farmers' cooperatives or women's groups or human rights associations, Africans are taking upon themselves the responsibility for development.

In Africa we are seeing a remarkable growth of a literate, educated population. This is the foundation of a sound economy. And this progress offers a powerful rebuke to those who would suggest that economic development and social development can be isolated from one another. African literacy rates have increased from 21 percent in 1970 to 57 percent in 1995, a growth in literate adults of 7.5 per year. When economists and development specialists look back at the birth of the Asian economic tigers, they almost unanimously identify the growth of an educated population as a centerpiece of these nations' economic explosion.

In Africa, we are also seeing an equally important rise in highly educated people. Despite concerns of the "brain drain," the number of highly educated, experienced, self-confident African scientists, entrepreneurs and technocrats has been increasing very quickly. For example, in the area of agricultural science, in 1991 there were in 8,000 African scientists -- 50 percent of whom had advanced degrees. In 1960, there were a paltry 152 such scientists.

With the fall of communism, the choices for Africa have been presented in stark terms. Africans can look at two competing sets of experiences: those of the Asian miracles who have transformed poor, illiterate societies into modern, rapidly growing economic powerhouses on one hand, and on the other hand, the experience of failed socialist states who have transformed modern industrial societies into economic ruin. The choice is not a difficult one.

From South Asia to Central Europe to Africa, we have seen again and again that a wise investment in foreign assistance programs paves the way for American business, beneficial trade and democracy. We should not abandon our efforts in Africa at a time when they are begin to provide historic returns. We still face real challenges, but democracy and free markets are taking hold like never before. USAID's programs have played an important role in these developments.

I thank the Committee for raising these important issues, and I look forward to working with you to continue to advance America's interest in the region.

-- end --

O